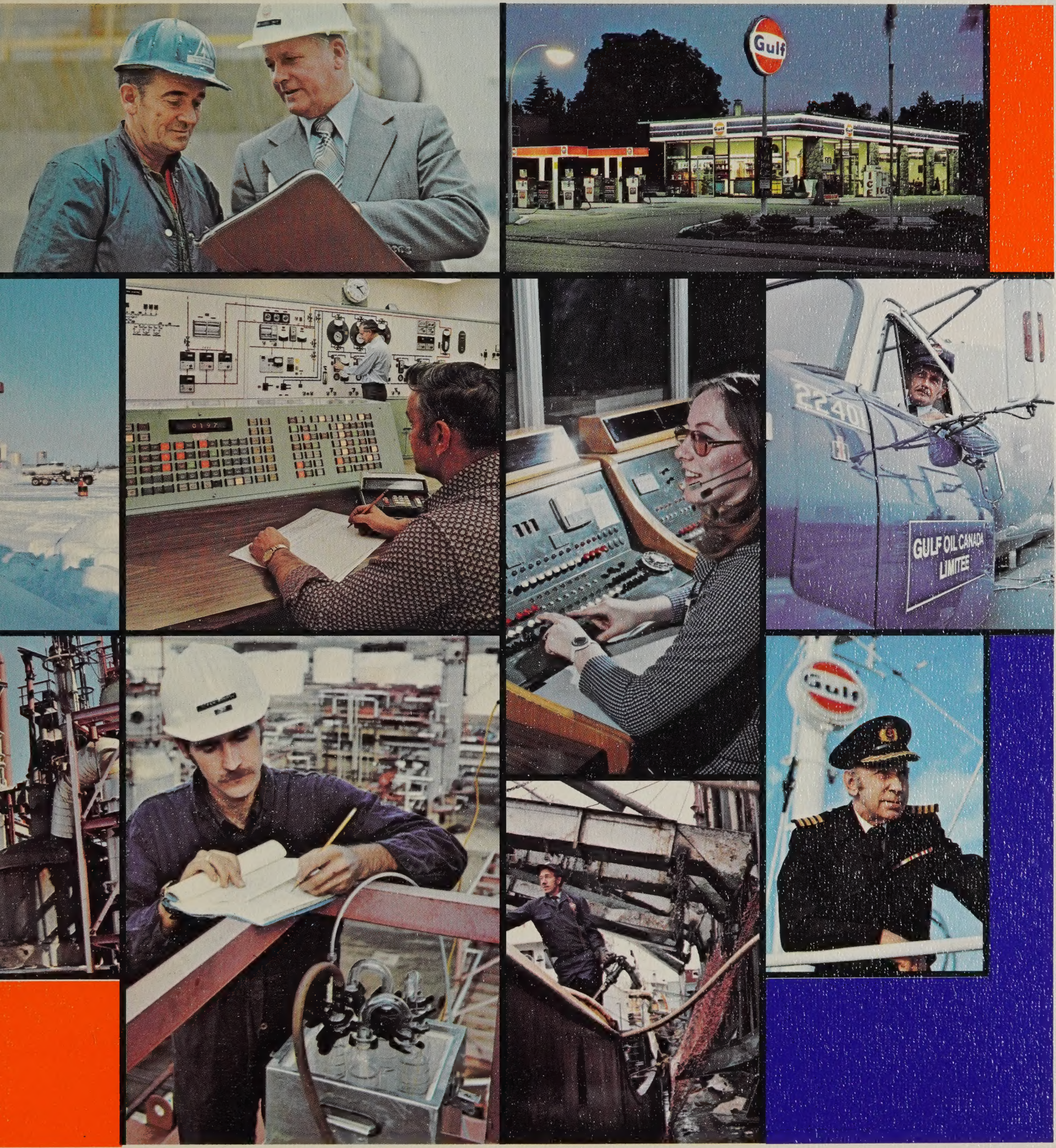
GULF OIL CANADA LIMITED 1973 Annual Report



GULF OIL CANADA LIMITED 1973 Annual Report

Contents

Annual Meeting

The Annual Meeting of Shareholders will be held in the Ballroom of the Royal York Hotel, Toronto, at 2:00 p.m. E.S.T., April 25, 1974.

Cover

This year's Annual Report gives a special salute to the 10,000 men and women who work for Gulf Canada— the people responsible for our success. Taken by Company photographer Ron W. Sculthorp in a coast-to-coast tour of operations, the photographs are representative of the wide range of jobs performed by men and women in an integrated oil company. Employees pictured are identified on page 29.

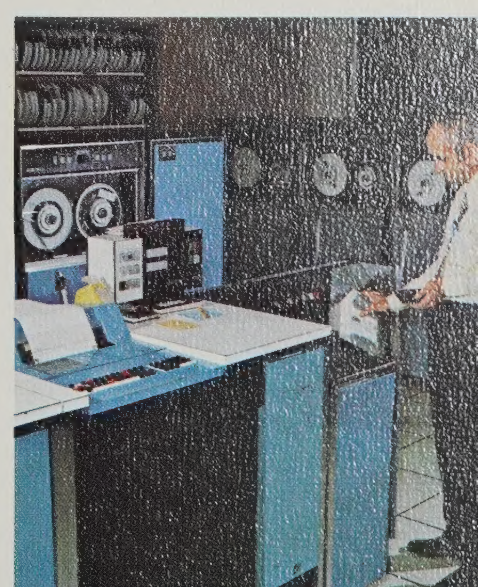
On peut obtenir ce rapport annuel en français sur demande.

Highlights of operations

Financial	1973	1972
Earnings for the year	$101,674,000	$ 64,439,000
Per share	$ 2.23	$ 1.42
Total dividends to shareholders	$ 31,838,000	$ 27,281,000
Cash dividends paid	$ .70	$ .60
Shareholders' equity at year-end	$812,027,000	$741,986,000
Per share	$ 17.85	$ 16.31
Capital expenditures	$ 67,604,000	$ 60,827,000
Working capital	$351,460,000	$261,331,000
Long term debt	$195,938,000	$195,386,000

Operating

	Barrels per day	
Net crude oil and natural gas liquids produced	125,000	114,000
Crude oil processed by and for the Company	327,000	297,000
Petroleum products sold	262,000	245,000
	Thousands of cubic feet per day	
Net natural gas produced and sold	434,000	448,000
	Pounds per day	
Petrochemical sales	2,305,000	2,159,000



Report to the shareholders

The past year has been one of considerable uncertainty and change in Canada, especially with regard to government energy policies at both provincial and federal levels. Rapidly escalating costs of imported oil and a loss of confidence in the security of foreign supplies have initiated critical reviews by governments and industry alike of the policies and practices which affect the production, distribution, and pricing of oil in Canada.

During the past decade petroleum requirements east of the Ottawa Valley have been met with imported oil, while the region west of the Valley has been supplied largely from domestic production. Under this arrangement, Quebec and the Atlantic provinces have had the benefit of lower-cost imported crude oil, while Ontario and the rest of Canada have provided a market for production from Canadian oilfields. This Canadian market and the United States export market provided the incentive required to sustain exploration and development activities in Western Canada. Over the ten-year period, imports into Eastern Canada and exports to the U.S. have been approximately in balance.

The developing world crisis relating to the supply and price of oil was accelerated during 1973 by the conflict in the Middle East and the subsequent actions taken by the Arab nations to restrict the overall production and supply of oil to specific countries. These world developments have had significant effects on Canada: an increase in export demand; an uncertainty with respect to the continuity of oil from the Middle East; a rapid rise in the cost of imported oil; and a virtual elimination of the availability of lower-cost offshore refined products.

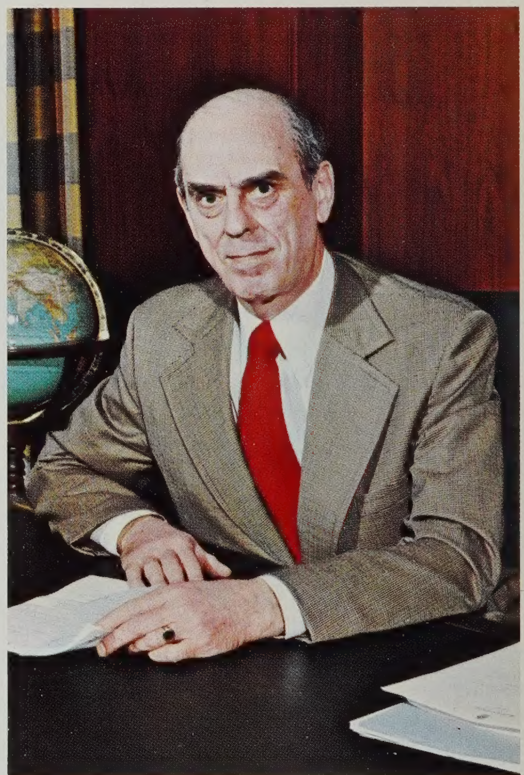
This situation has given a new emphasis to the security of supply in Canada. The government of Canada has already announced that the Interprovincial crude oil pipeline from Western Canada will be extended to Montreal and has also indicated that this is the first step in a policy leading toward coast-to-coast distribution of Canadian-produced oil.

Canada should be able to supply all the petroleum needs of Canadians in the longer term. In the shorter term, however, the situation is less comfortable. Production from the established sources in Western Canada has exceeded discoveries for several years, and it is expected that production in the Western provinces will reach a peak in 1975 which can be sustained until 1978, but that it will decline thereafter. Faced with lower production in Western Canada and growing demands throughout Canada, new sources of oil will be needed – from the oil sands, from the heavy oil reservoirs which do not respond to normal production practices, and from reserves still to be discovered in the frontier areas of Canada such as the Northwest Territories and the Yukon, the Arctic Islands and Beaufort Sea, and the Eastern Canada offshore areas.

Rapid development of these new sources is essential if Canada is to maintain its overall self-sufficiency and protect itself from undue dependence on oil supplies from the overseas producing nations. Even with appropriate government policies, production from these sources cannot be made available soon enough to offset the decrease in productive capacity in Western Canada, and it is expected that imports will exceed the oil available for export as early as 1976, when Canada will become a net importer of oil. Sharp and immediate reductions in oil exports would do little towards solving this problem and would create others. The only long-term solution lies in finding and developing new sources of oil in the frontiers and from the oil sands and heavy oil deposits. These programs will require unprecedented capital expenditures.

As the industry presses forward with its exploration and development programs in these high-risk, high-cost areas, it is essential that Canada continue to provide a stable political and economic climate which will encourage the industry in its search.

During 1973 the industry was faced with more and more intervention as governments at all levels reacted to the world-wide supply and price developments. The provinces sought to ensure higher revenues from their resources and the federal government moved to ensure the supply of Canadian requirements and stabilize



Canadian prices through licensing of exports, a temporary price freeze, and an export tax.

None of these actions is directed at solving the long-term problem – that of finding more oil. However, the ability of the industry to finance the enormous investment for the search will depend on crude and product price developments when the temporary freeze is lifted. Canada's ability to supply its energy requirements depends on the availability and the price of energy in Canada in comparison with the rest of the world. In turn, both price and availability will depend on decisions that are in the process of being made now. It is hoped that such critical decisions will not be made on the basis of short-term political expediency but rather in the interests of developing a sound long-term solution for Canada.

Over the past several years Eastern Canada has been a dumping ground for world-market surplus gasoline. This market – and to a lesser extent the Ontario market – has also been subject to surplus world supplies of distillate heating fuel. As a result, the prices of these commodities were depressed below the level which would yield an adequate return for the facilities used in refining imported crude oil in Eastern Canada and domestic crude in Ontario. With the advent of the world shortage of crude and products, these conditions no longer exist and, consequently, our realizations for petroleum products in Eastern Canada are now not subject to the discounts that were required to meet competition from dumped offshore product. These more realistic returns, together with larger refinery throughput, improved significantly the Company's earnings from refined product operations. Increased volumes of crude oil production and higher revenues from sales of natural gas also contributed to higher earnings.

Consolidated net earnings amounted to $101.7 million in 1973, raising the Company's rate of return on capital employed to 10.1 per cent for the first time since an 11.9 per cent return was earned 20 years ago in 1953. Per share earnings improved from $1.42 in 1972 to $2.23 in 1973.

We are encouraged that earnings are now approaching the level of an adequate return on investment. Details of financial and operating results appear later in this report.

Three new directors have been elected since our last Annual Report. William H. Young, President of The Hamilton Group Limited, succeeded W. Herman Browne who retired after serving on the Board since 1965. Edward F. Crease, President of Alfred J. Bell & Grant Limited, Halifax, replaced Ian M. MacKeigan, Q.C., who resigned to become Chief Justice of Nova Scotia. Edward H. Crawford, President of The Canada Life Assurance Company, succeeded the late Charles Hay. Mr. Hay, who died in October, had served as President of the Company between 1965 and 1969.

Two former Gulf Canada vice-presidents returned to the Company after serving in the Gulf organization abroad. S. G. B. Pearson, formerly Regional Manager of Exploration, Gulf Oil Company – Eastern Hemisphere, was elected Vice-President in charge of Exploration and Production, succeeding G. O. Relf who retired after 29 years of service. J. L. Stoik was elected a Senior Vice-President following three years as Executive Vice-President and Chief Executive Officer of the Korean Oil Corporation.

In addition to the fact that Gulf Canada achieved new records of growth and earnings in 1973, it was a rewarding year in many other aspects also. High among these is the fine support of our shareholders, our dealer organization, and our employees whose inventiveness and spirit give us confidence that the year ahead will bring continued achievement of corporate goals.

On behalf of the Board,

Chairman of the Board.

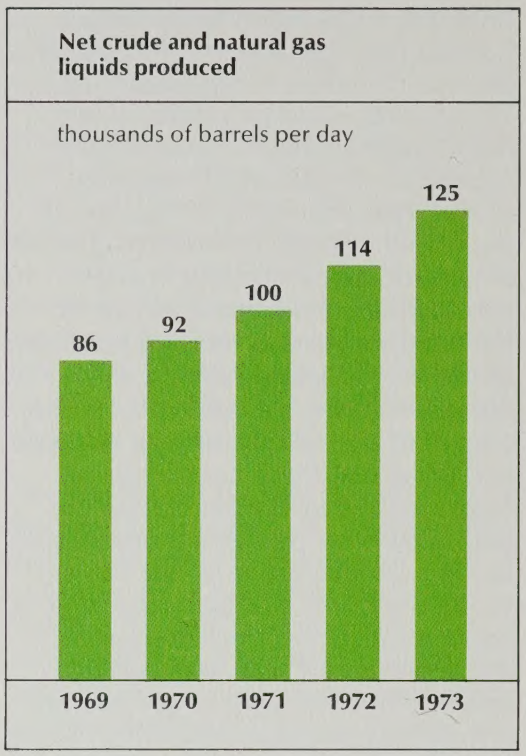
President.

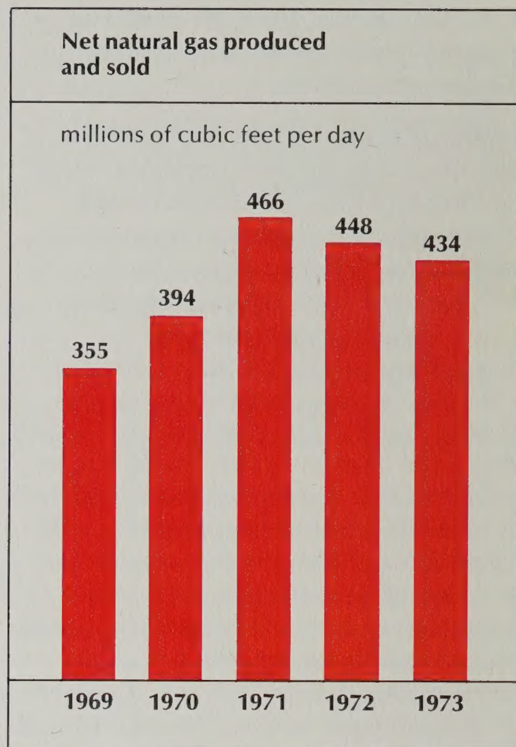
Toronto, Ontario, March 25, 1974.

The year in review

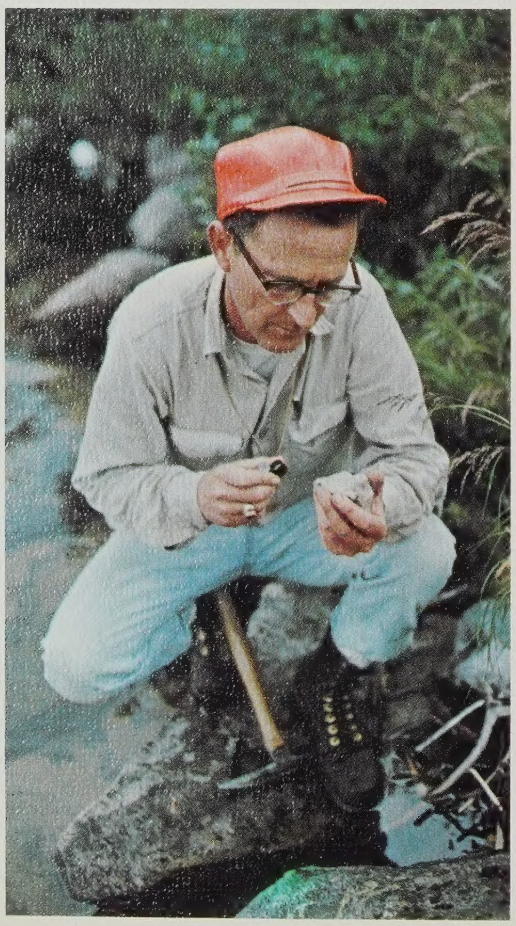
Exploration and production

Volumes of crude oil and natural gas liquids produced by Gulf Canada in 1973 averaged 149,000 barrels daily before royalty, an increase of 12 per cent over the previous year. Because of higher royalties in the province of Alberta, after-royalty production of 125,000 net barrels daily was a gain of only 9.5 per cent. Sales of natural gas averaged 434 net million cubic feet per day, a decline of three per cent from 1972. In accordance with the terms of the contracts under which the Company's natural gas is sold, the prices received at the well-head for this premium fuel were negotiated upward, in partial recognition of its higher value both intrinsically and in relation to the cost of other fuels.

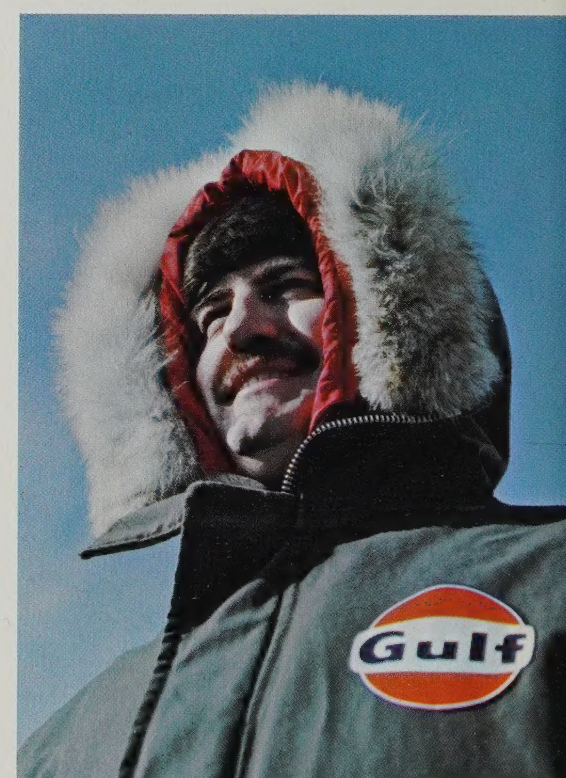


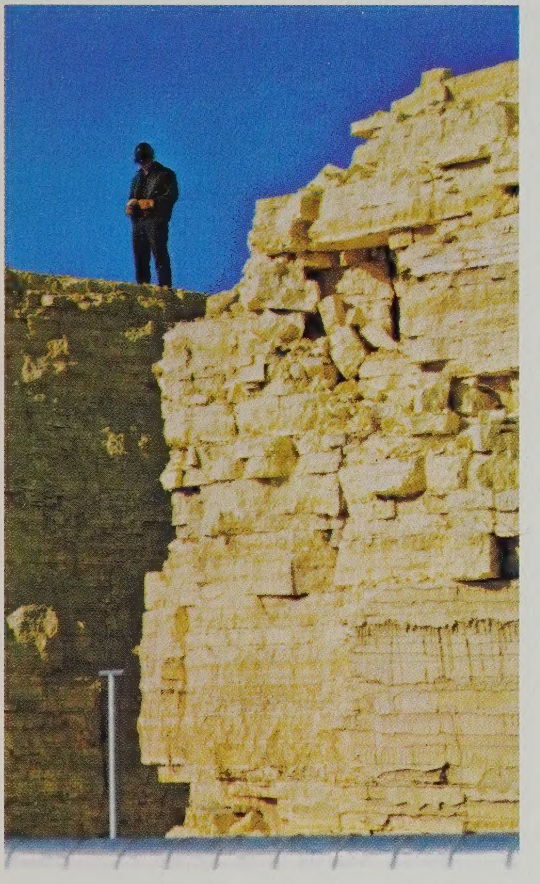


Several capital programs in Alberta were authorized or completed during 1973 which will enhance future production potential. New recovery facilities at the Strachan gas plant are adding 4,000 barrels daily of natural gas liquids for subsequent fractionating at the 31-per-cent-owned Fort Saskatchewan plant. Also at Strachan, a rail spur to transport sulphur is planned for next year. In the Swan Hills area of northwestern Alberta, a miscible flood project was operational in 1973, and a major gas conservation plant expansion at Judy Creek is now under construction. Expansion currently under way at the wholly-owned Nevis gas plant will remove present limitations on crude oil production by providing additional capacity to process gas that is produced with the oil.



Under the joint venture agreement with Gulf Oil Corporation, the Company's acreage position on the East Coast was further enlarged. On the Labrador Shelf, both companies share





a 16⅔ per cent interest in 30 million acres and participated in a two-well program. The second well at the Bjarni location was suspended after encountering promising hydrocarbon shows which will be tested further in 1974. In addition, the Gulf companies participated in a recent wildcat abandonment to earn a 25 per cent joint interest in three million acres south of a ten-million-acre block on the Grand Banks where Gulf Canada has a 25 per cent interest and participated in two wells. Although both wells were abandoned, encouraging test results were encountered at Adolphus where oil was recovered at a rate of 268 barrels per day.

In the Arctic Islands, under the joint venture with Gulf Oil Corporation, the companies are earning a joint 25 per cent interest in 6.5 million acres

WELL COMPLETION DATA

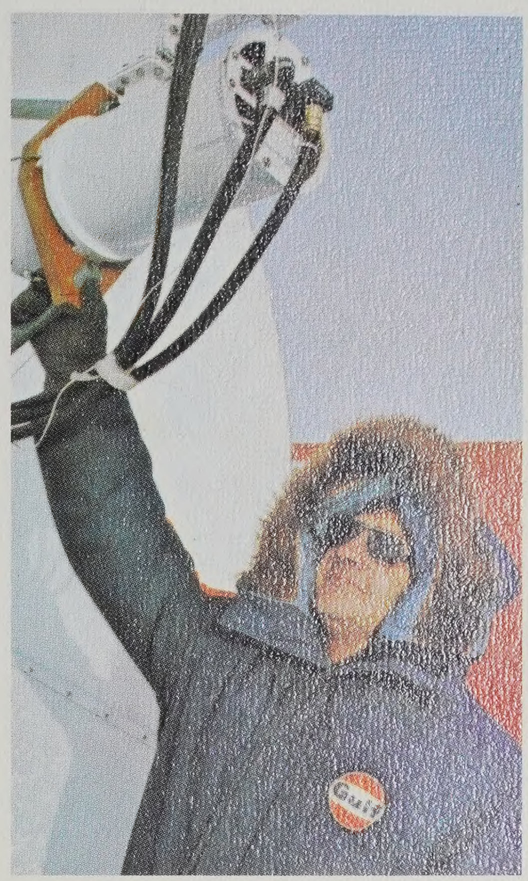
Exploratory					
Gross wells	1973	1972	1971	1970	1969
Successful – oil	1	—	—	—	—
– gas	11	2	2	2	3
Dry holes	40	19	13	12	17
Frontier discoveries	4	1	—	—	—
Total	56	22	15	14	20
Net wells					
Successful – oil	—	—	—	—	—
– gas	8	1	2	1	2
Dry holes	25	11	10	6	9
Frontier discoveries	2	1	—	—	—
Total	35	13	12	7	11

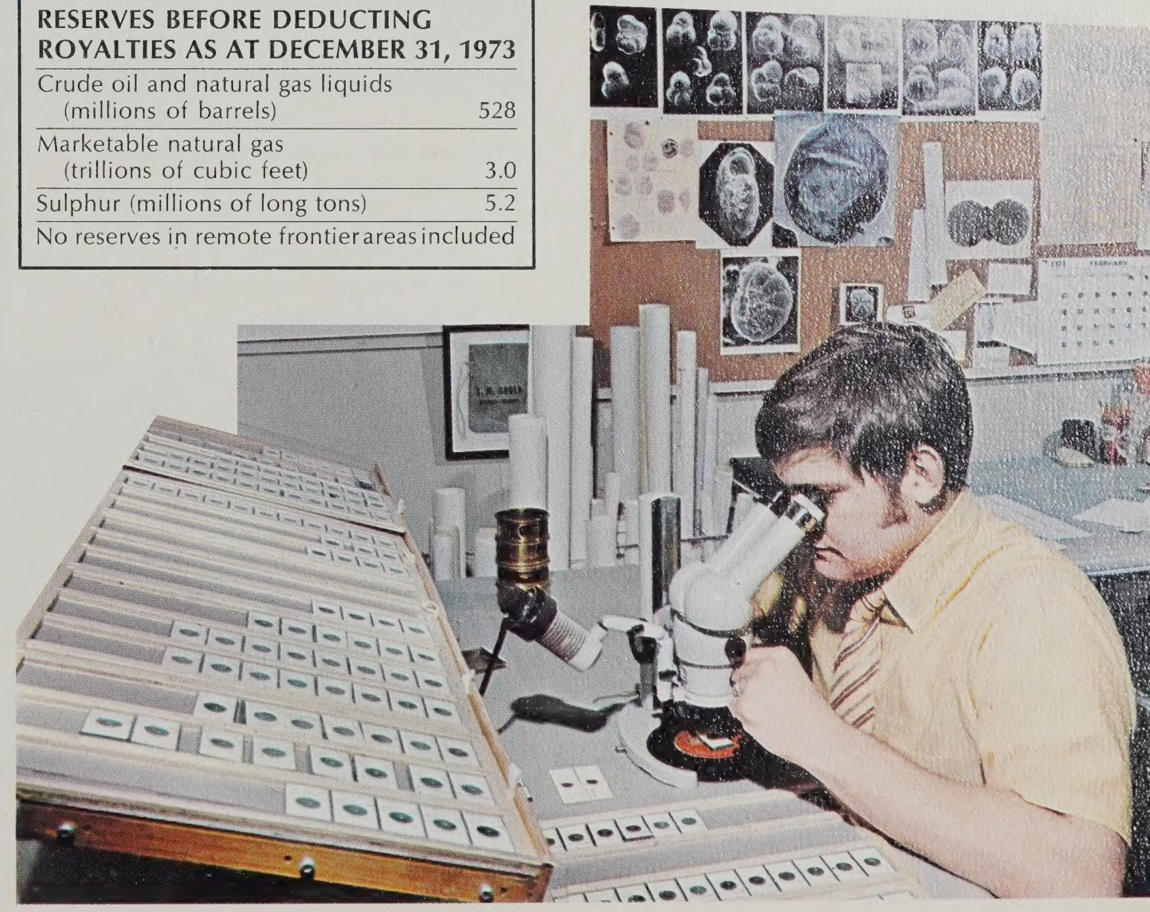
Development					
Gross wells	1973	1972	1971	1970	1969
Successful – oil	24	35	39	10	51
– gas	10	11	14	33	30
Suspended	—	—	—	—	2
Dry holes	6	6	14	3	13
Total	40	52	67	46	96
Net wells					
Successful – oil	7	5	12	3	22
– gas	3	3	3	9	6
Suspended	—	—	—	—	1
Dry holes	5	3	6	1	4
Total	15	11	21	13	33

ESTIMATED RECOVERABLE RESERVES BEFORE DEDUCTING ROYALTIES AS AT DECEMBER 31, 1973

Crude oil and natural gas liquids (millions of barrels)	528
Marketable natural gas (trillions of cubic feet)	3.0
Sulphur (millions of long tons)	5.2

No reserves in remote frontier areas included





through a farm-in from Global Marine, most of which is in the geologically prospective Sverdrup Basin. The first well on this acreage at Linckens Island was abandoned in the second quarter after encountering non-commercial gas shows. On a Panarctic farm-in located over the Drake Point gas field on Melville Island, the joint venture is earning a 15 per cent interest in all formations below 9,800 feet in an area covering some 240,000 acres.

In the Mackenzie Delta, the 1972 gas condensate discovery at Parsons Lake on 75-per-cent-owned acreage was followed up with a 1½-mile stepout, which established five gas zones with flow rates of between three and 37 million cubic feet daily. The Gulf Canada 75-per-cent-interest YaYa wildcat in the northwest part of the Reindeer block flowed gas on tests between 7,000 and 8,000 feet and two Gulf-operated one-third interest wildcats, at Titalik and Reindeer, also produced gas. The fifth, a deep test on 75-per-cent-interest acreage, was abandoned. Including three wells now drilling, the Company has participated in 18 Mackenzie Delta wells, of which five have been gas discoveries. Gulf Canada's exploratory expenditures in the Delta are being financed by an agreement with two major gas purchasers who have first call on reserves.

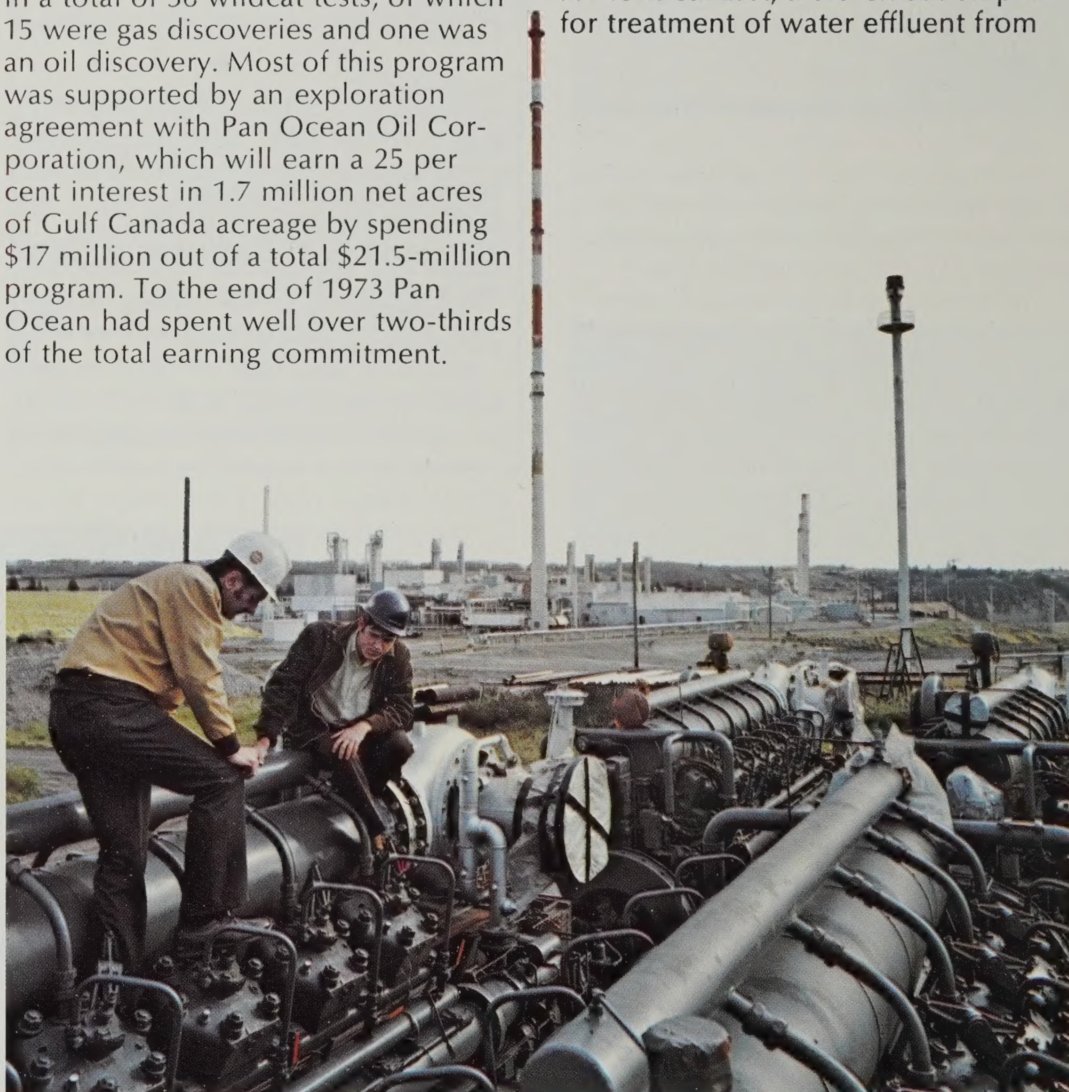
Gulf Canada continued an active exploration program and participated in a total of 56 wildcat tests, of which 15 were gas discoveries and one was an oil discovery. Most of this program was supported by an exploration agreement with Pan Ocean Oil Corporation, which will earn a 25 per cent interest in 1.7 million net acres of Gulf Canada acreage by spending $17 million out of a total $21.5-million program. To the end of 1973 Pan Ocean had spent well over two-thirds of the total earning commitment.

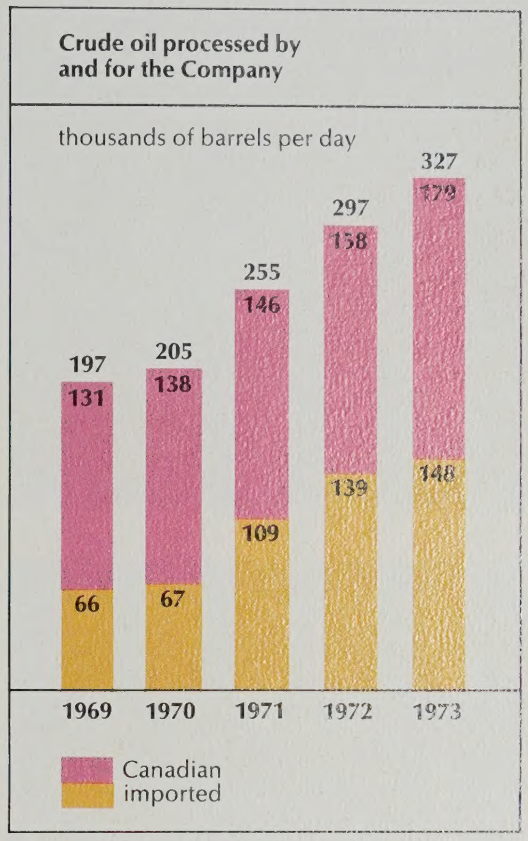
Refining

Over 99 per cent of nominal refinery capacity was used in processing a record 118.6 million barrels of crude oil in 1973, almost ten per cent over the previous year's volume.

In August the new 10,000 barrel-per-day Hydrobon-Platformer at Clarkson Refinery began providing additional high octane components for Futura no-lead gasoline. This new product is now being produced at all refineries.

Several other new facilities were introduced during the year. In December a tank-car loading rack was placed in service at Montreal East Refinery which can fill a 42-car jumbo tank train with 20,000 barrels of bunker fuel in a single shift. Also at Montreal East, a bio-oxidation plant for treatment of water effluent from





Crude Processing Capacity	
	Barrels per stream day
Point Tupper, Nova Scotia	87,000
Montreal East, Quebec	75,000
Clarkson, Ontario	61,500
Moose Jaw, Saskatchewan*	11,500
Calgary, Alberta*	7,500
Edmonton, Alberta	80,000
Kamloops, British Columbia	6,500
Port Moody, British Columbia	32,000
Total	361,000

*Asphalt plants.

both the refinery and adjacent chemical works began operating, the first installation of its kind in the area. At Point Tupper Refinery, propane recovery, storage, and distribution facilities were completed.

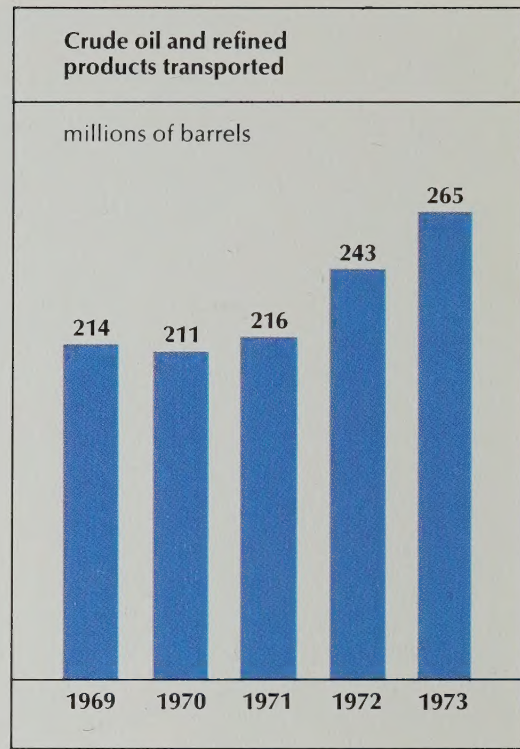
A contract has been awarded for construction of a carbon monoxide boiler at Edmonton Refinery by the end of 1974. Although this project is directed primarily at maintaining refinery emissions within the demanding air quality regulations, it also improves operational reliability when the refinery is operating at or above maximum rated capacity.

At year-end all refineries were active in debottlenecking projects to permit maximum throughput in 1974. To assist in meeting demand, a 25,000 barrel-per-day condensate handling facility will be built at Clarkson to increase light oil availability in Ontario and Eastern Canada.

From January 1, 1973, to January 1, 1974, the cost of foreign crude brought into Canada increased by over three times, from around $3.00 to over $10.00 per barrel, primarily due to demands by the world's major petroleum-exporting countries and, to a much lesser degree, by rising costs of ocean transportation. The combination of sharply rising prices and production cutbacks created a tight supply situation in Eastern Canada and forced substantial product price increases to cover the higher costs.

Domestic crude prices responded to world market conditions by posting per-barrel increases of 20 cents in January, 25 cents in May, and 40 cents in August when the trend was halted by the Canadian government's imposition of a voluntary price freeze to the end of the winter. Consequently, at year-end there was a large difference in crude costs and product selling prices between Eastern Canada and the central and western provinces.

Further measures were introduced by the federal government in an effort to provide some protection to Canadian consumers. Export controls were established first on crude oils, then on motor gasoline and middle distillates, and in October on propane, butane and heavy fuel oil. Another federal action was the application of a tax on crude oil exports at the rate of 40 cents per barrel in October and November, $1.90 in December, $2.20 in January, and rising to $6.40 in February, 1974.

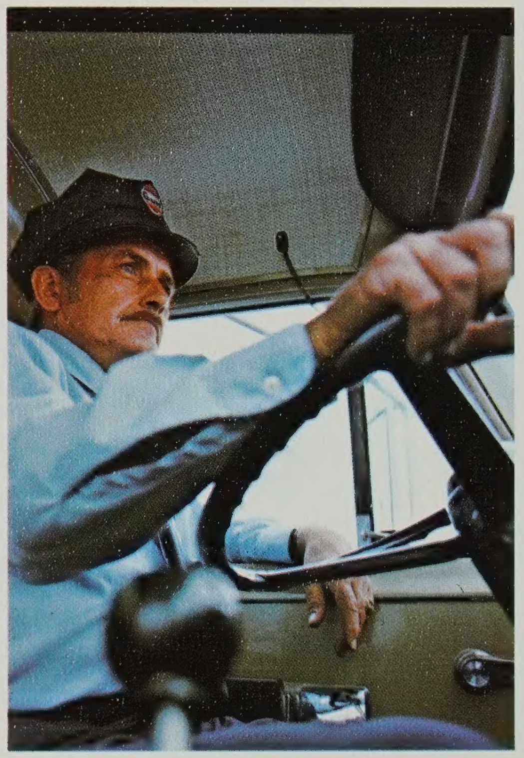


To ensure adequate winter supplies for its customers in Eastern Canada, Gulf Canada initiated the movement of Alberta crude oil via the St. Lawrence Seaway and the Panama Canal at additional costs to the Company and with considerable strain on transportation facilities. Other substantial increases in transportation costs were minimized by renegotiating rates, rolling back railway rate hikes, and the use of more jumbo cars.

Canadian Arctic Gas Study Limited, in which Gulf Canada is a participant, selected a proposed route for a major

Supply and transportation

In 1973 the Company operated under the unusual conditions of rapidly escalating crude costs, export cutbacks by the oil-producing Arab countries, and responsive controls by the Canadian government.



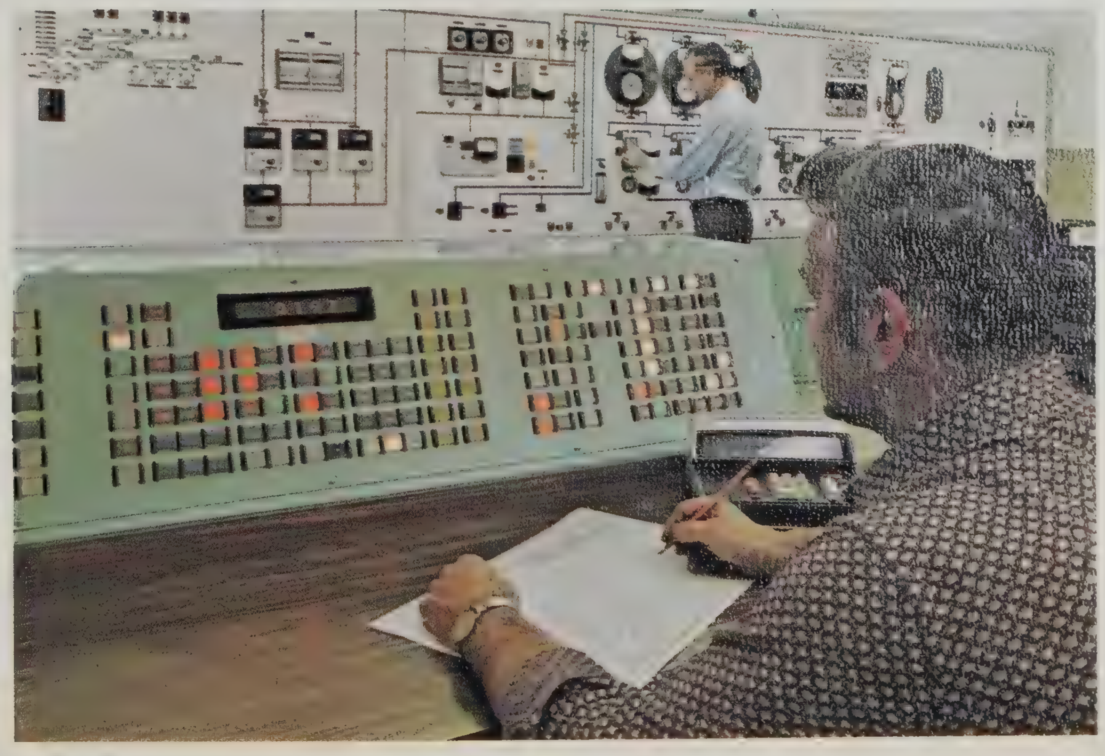
gas pipeline from the Mackenzie Delta and northern Alaska to Eastern Canada and the United States. Applications for right-of-way and construction permits are expected to be filed shortly in Ottawa covering the Canadian section of the line, and in Washington for the U.S. portion

In mid-year the capacity of the Alberta Products Pipe Line Ltd., operated by Gulf Canada, was increased from 24,000 to 42,000 barrels per day to meet the expected higher needs of the Calgary area.

Chemicals

Streamlining of chemicals operations continued in 1973 with the shut-down of the converted plastics manufacturing facilities at Ste. Thérèse, Quebec, and the sale of The McArthur Chemical Co. Ltd.

Closure of the Ste. Thérèse plant was the result of a highly competitive market for converted plastics products which had reduced production to an uneconomic level. Gulf



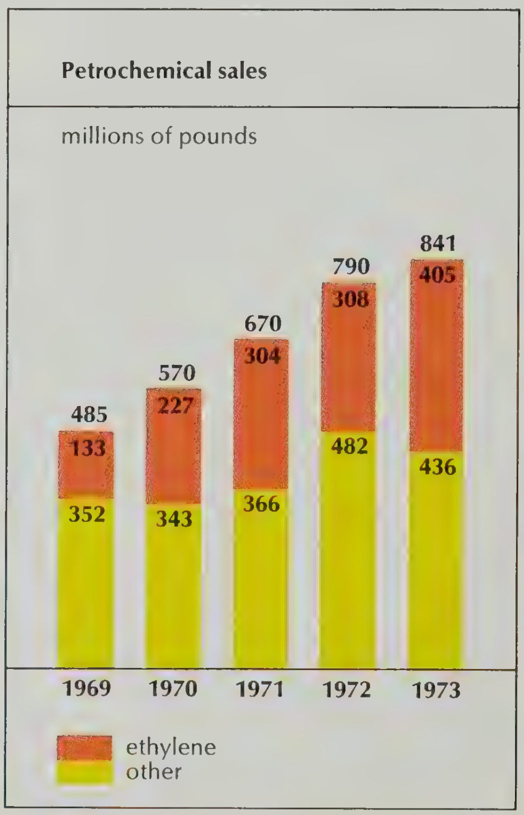
The year in review

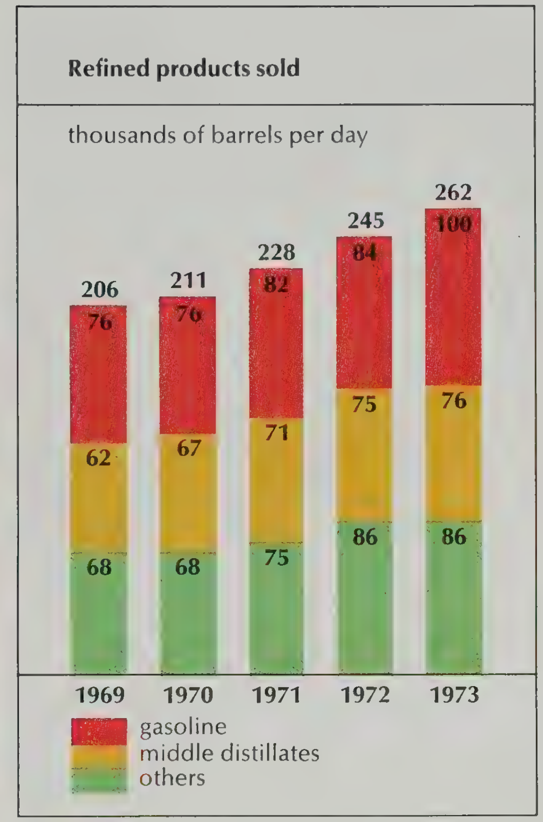
Canada negotiated successfully with a buyer who will continue to operate the facilities by developing new business and transferring existing operations to the Ste. Thérèse location, thereby preserving employment in the community.

McArthur Chemical, a subsidiary company primarily engaged in buying and reselling bulk and fine chemicals, together with its Perkins Adhesives operations, were sold to Van Waters & Rogers Ltd. The merger of McArthur's eastern-based operations with Van Waters & Rogers' Vancouver-based business will form the largest chemical distributorship in Canada, creating improved prospects for the growth of McArthur and new opportunities for its employees.

Ethylene and propylene sales agreements, finalized during the year with Union Carbide Canada Limited and Hercules Incorporated, enabled Union Carbide to embark on a major expansion of its ethylene derivatives facilities and Hercules to start construction of Canada's first polypropylene plant. To provide feedstock for these new facilities Gulf Canada is increasing the capacity of its olefins unit at Varennes, Quebec.

Influenced by generally favorable economic conditions, world chemical demand has improved appreciably. Strong demand and shrinking surplus capacity throughout 1973 generated a significant upturn in market prices from the depressed levels of recent years, and this trend was further strengthened by the effect of the Arab cutbacks and pricing initiatives. In this new environment, sales revenues for chemical products were up 12 per cent over 1972. At year-end plants were operating at or close to capacity to meet demand. Although profitability improved due to better performance and benefits from streamlining, large increases in costs, primarily for feedstock, kept earnings at an inadequate level.





Positive factors in the industry's outlook include the reduction in world surplus plant capacity and a return to more realistic price levels. However, higher feedstock and energy costs will require further price increases if demand is to be met and a satisfactory level of profitability attained.

Marketing

Gulf Canada supported the federal government's voluntary price freeze program, announced in September as an anti-inflation measure, and also is co-operating with a number of provincial government bodies who are studying the operating practices of the petroleum industry. In these enquiries, the Company has been able to demonstrate that for many years energy from petroleum has been one of the best bargains available to the Canadian public. Overall price increases have lagged far behind both wages and consumer prices in the last ten years, and much of the price adjustment to the consumer in this period has been due to higher taxes and dealer margins.

The performance of Gulf Canada, and of the industry, in restraining price advances in spite of inflation is a direct result of the highly competitive nature of an industry operating in a free enterprise environment.

For a considerable time, prices in Canada have been held to unrealistically low levels by the availability of world-wide surpluses of refined products which could be imported at distress prices and sold in competition with locally-refined products. As a result, Gulf Canada's refining and marketing operations in many areas of Canada have been unable to earn a satisfactory return on the capital employed in these operations.

In the face of the world-wide shortage of petroleum in 1973, the member

governments of the Organization of Petroleum Exporting Countries initiated several increases in the price of crude oil imported into Canada. In line with the terms of the voluntary price freeze program and with the agreement of the federal government, it was necessary to raise product prices in Eastern Canada to cover the substantially higher costs.

The Company's sales of petroleum products recorded a six per cent gain over 1972, with particular strength being shown in the retail gasoline market where a number of self-serve and car wash outlets were added.

During 1973 Superior Propane achieved both record sales volumes and earnings. Although there were some disruptions in supply during the rail strike, the long-term outlook for the Company's propane customers is reassuring since the volume produced in Canada is considerably in excess of any future anticipated domestic requirements.

The versatility of propane as a fuel continues to create new and interesting applications. Two most recent examples are the heating of the world's highest communications tower being built in Toronto and the drying of a grain cargo recovered from a wrecked ship in Eastern Canada.

Research and development

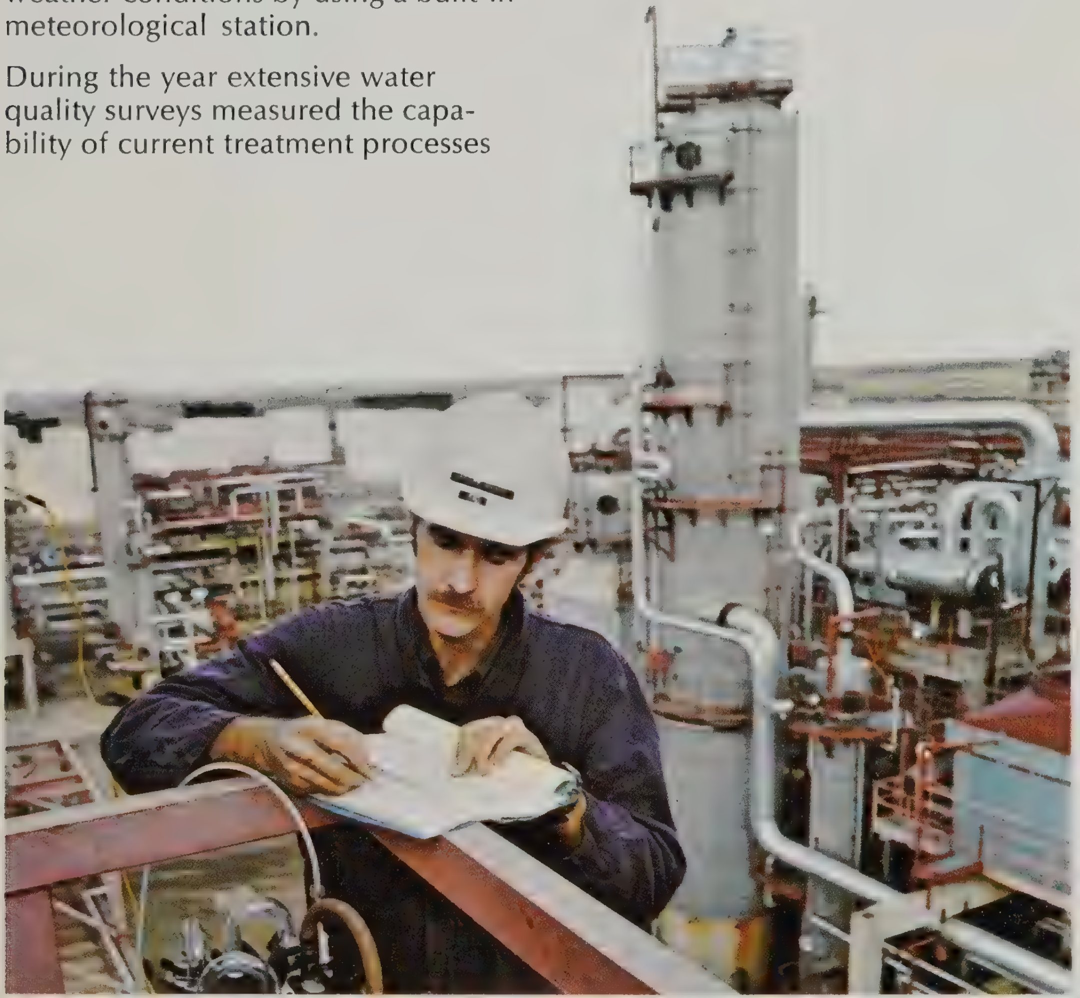
Much attention continued to be directed to safeguarding the environment. One of the more effective innovations introduced by Gulf Canada in 1973 was an environmental studies mobile laboratory. Designed and staffed by Research and Development personnel, it is being used at refineries, gas processing and petrochemical plants across Canada to record air quality and emissions from

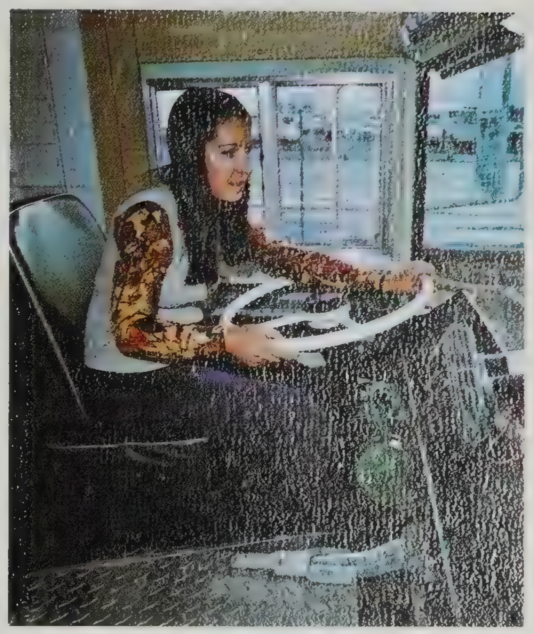
stationary sources. On-board instrumentation can monitor seven potential pollution contributors and correlate these findings with local weather conditions by using a built-in meteorological station.

During the year extensive water quality surveys measured the capability of current treatment processes at Company facilities to meet proposed standards for industry. The Department also assisted in optimizing recoveries of sulphur to conform with emission requirements.

With the introduction of Gulf Futura unleaded gasoline in mid-year, a study of the Company's product distribution system was completed to ensure satisfactory quality levels. Techniques were developed to record the extremely low concentrations of lead in the new gasolines, and these methods have been offered to government and industry in the interest of establishing national monitoring standards.

Among new products introduced in 1973 were a low-ash motor oil, a line of industrial gear lubricants, and a carbon black feedstock.





Employee and public relations

During 1973 collective bargaining agreements were signed with independent unions and the O.C.A.W. international union. The 31-month contract signed with the latter provides for work schedules ranging from 37⅓ hours to 40 hours per week, subject to a majority vote of the employees at each location.

Employee Relations played a significant role in administering personnel and labor relations matters resulting from the sale or closure of several Company facilities. In the field of safety, the President's Safety Incentive Award, signifying 365 days or one million hours worked without a disabling injury, was earned by 1,450 employees in 19 units across Canada.

To assess employee opinion on a wide variety of subjects, a comprehensive attitudinal study was made during the year. Complete results were given to all employees through a movie and a special issue of the Company magazine. Although, on balance, employees view their company in a favorable light, appropriate action is being taken by management to improve conditions in indicated areas.

Emphasis continued to be placed on upgrading employees to fill the human resources needs of the future. Operating departments were encouraged and assisted in the development and use of manpower, while another 40 selected managers completed the Company's corporate management course at the University of Western Ontario, bringing to over 200 those who have completed this program.

A major portion of the Company's communications program during 1973 related to the energy crisis in Canada and Gulf Canada's supply position. To inform its many publics on such topics as supplies and prices, environmental affairs, capital programs and technological advances, the Company

provided employees, shareholders, dealers, and the news media with a continuing flow of reliable information in the form of articles, releases, speeches, and statements. Gulf Canada also presented several formal briefs to government bodies across

Canada by way of explanation of the Company's policies and practices covering various functions.

A wide selection of printed material and visual aids was again provided to teachers, students and others interested in the oil industry.

Under its donations policy, Gulf Canada supported national and local campaigns conducted by Canada's universities, united funds, community projects, cultural groups and other health, research and social betterment organizations. In addition to financial contributions, this assistance also included, in many instances, the personal efforts and time of employees in various parts of Canada.

Financial review

Consolidated net earnings for 1973 amounted to $101.7 million or $2.23 per share, compared with $64.4 million or $1.42 per share in 1972.

Total revenues for the year exceeded $1 billion. As shown in Table I, revenues were improved in all areas of operations although chemical sales were up only slightly because of the closure and sale of certain facilities during 1973. Investment and other income rose significantly due to increased investment in marketable securities and improved interest yields.

Total costs and expenses, before income taxes, increased $121.0 million to $899.9 million. This increase reflected, in addition to costs associated with larger business volumes, higher prices for crude oil purchased, substantial increases in provincial and federal taxes, and rising costs of labor and materials.

Major factors contributing to the improvement in earnings were higher crude oil production volumes, record volumes processed by the Company's refineries, increased sales of refined products, and improved prices.

Dividends paid during 1973 totalled $31.8 million or 70 cents per share, which included an extra ten cents per share paid in addition to the regular quarterly dividend on July 1.

Working capital at December 31, 1973, amounted to $351.5 million, an increase of $90.2 million during the year. Table II provides an analysis of the working capital change. The substantial build-up of cash and marketable securities during the year enabled the Company to plan a greatly increased exploration and capital expenditure program for 1974. Cash advances to the extent of $12.4 million have been received from Alberta and Southern Gas and Pacific Lighting Gas Development under the agreement made in late 1972 to finance Mackenzie Delta exploration and development.

Table III provides details of capital expenditures in 1973 and 1972 by major operating department.

Total capital employed at December 31, 1973, was $1,124 million, an increase of $77 million over the 1972 year-end figure of $1,047 million. Shareholders' equity increased by $70 million in 1973 to $812 million and at year-end accounted for 72 per cent of total capital employed.

Table 1—Net Sales and Other Operating Revenues

	1973	1972	Change
		(millions)	
Refined products	$ 719.5	$ 580.1	$ 139.4
Natural gas, natural gas liquids and crude oil	131.4	104.6	26.8
Chemicals	62.2	61.2	1.0
Other operating revenues	119.3	105.8	13.5
Total	$1,032.4	$ 851.7	$ 180.7

Table II—Working Capital

	December 31		
	1973	1972	Change
		(millions)	
Cash and marketable securities	$ 188.4	$ 83.4	$ 105.0
Accounts receivable	230.1	190.5	39.6
Inventories of crude oil, products and merchandise	158.5	130.5	28.0
Materials, supplies and prepaid expenses	18.2	18.0	.2
Total current assets	595.2	422.4	172.8
Less current liabilities	243.7	161.1	82.6
Working capital	$ 351.5	$ 261.3	$ 90.2

Table III—Expenditures on Property, Plant and Equipment

	1973		1972	
	Millions	Per cent	Millions	Per cent
Production	$27.7	41.0	$22.8	37.5
Transportation	.6	.9	.3	.5
Refining	11.2	16.5	12.3	20.2
Petrochemicals	1.8	2.7	.7	1.1
Marketing	25.5	37.7	23.5	38.7
Other	.8	1.2	1.2	2.0
Total	$67.6	100.0	$60.8	100.0

Consolidated

December

Assets	1973	1972
	(thousands of dollars)	
Current:		
Cash	$ 15,762	$ 19,566
Marketable securities, at cost (approximates market value)	172,640	63,844
Accounts receivable	230,131	190,533
Inventories of crude oil, products and merchandise	158,518	130,531
Materials, supplies and prepaid expenses	18,123	17,961
Total current assets	595,174	422,435
Investments, long term receivables and other assets:		
Investments in associated and other companies (note 2)	18,377	17,967
Deposits, long term receivables and other assets	30,500	32,394
	48,877	50,361
Property, plant and equipment at cost less accumulated depreciation, depletion and amortization (note 3)	714,218	722,708
Excess of cost of businesses acquired over values assigned to tangible assets, less amortization	9,018	12,619
	$1,367,287	$1,208,123

(See accompanying notes to financial statements)

Auditors' Report

To the Shareholders of
Gulf Oil Canada Limited:

We have examined the consolidated balance sheet of Gulf Oil Canada Limited and subsidiary companies as at December 31, 1973 and the consolidated statements of earnings and source and use of funds for the year then ended. Our examination was made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

Toronto, Canada,
February 1, 1974

Canada Limited

balance sheet

31, 1973

Liabilities

	1973	1972
	(thousands of dollars)	
Current:		
Accounts payable and accrued liabilities	$ 154,741	$ 115,398
Income and other taxes payable	77,810	37,254
Current portion of long term debt	4,340	1,630
Dividends payable	6,823	6,822
Total current liabilities	243,714	161,104
Long term debt (note 5)	195,938	195,386
Deferred income taxes (note 6)	115,608	109,647

Shareholders' Equity

	1973	1972
Capital stock (note 7)	280,944	280,739
Retained earnings	531,083	461,247
Total shareholders' equity	812,027	741,986
	$1,367,287	$1,208,123

On behalf of the Board:

Jerry McAfee, Director.

Beverley Matthews, Director.

In our opinion these consolidated financial statements present fairly the financial position of Gulf Oil Canada Limited and subsidiary companies as at December 31, 1973 and the results of their operations and source and use of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Clarkson, Gordon & Co.,
Chartered Accountants.

Gulf Oil Canada Limited

Consolidated statements of earnings

Year ended December 31, 1973

Earnings

	1973	1972
	(thousands of dollars)	
Revenue:		
Gross sales and other operating revenues	$1,231,935	$1,023,109
Less gasoline and fuel taxes	199,525	171,383
Net sales and other operating revenues	1,032,410	851,726
Investment and sundry income	26,336	20,088
Gain on disposal of pipeline interests	1,285	2,619
	1,060,031	874,433
Deductions:		
Purchased crude oil, products and merchandise	416,358	345,281
Operating and exploration expenses	143,121	139,886
Selling, general and administrative expenses	185,249	162,845
Taxes other than taxes on income	67,984	50,062
Depreciation, depletion and amortization (note 4)	72,337	65,594
Interest on long term debt	14,880	15,211
	899,929	778,879
Earnings before income taxes	160,102	95,554
Taxes on income (note 6)	58,428	31,115
Earnings for the year	$ 101,674	$ 64,439
Earnings per share	$2.23	$1.42

Retained Earnings

	1973	1972
Balance, beginning of the year	$ 461,247	$ 424,089
Add earnings for the year	101,674	64,439
	562,921	488,528
Deduct dividends on common shares	31,838	27,281
Balance, end of year	$ 531,083	$ 461,247

(See accompanying notes to financial statements)

Gulf Oil Canada Limited

Consolidated statement of source and use of funds

Year ended December 31, 1973

	1973	1972
	(thousands of dollars)	
Source of funds:		
Earnings for the year	$ 101,674	$ 64,439
Add back—		
Depreciation, depletion and amortization	72,337	65,594
Deferred income taxes	5,960	17,618
Other charges not affecting working capital	1,903	2,279
Funds from operations	181,874	149,930
Net book value of fixed asset and investment disposals	7,358	8,589
Proceeds from long term obligations	10,453	2,017
Proceeds from issue of shares for cash	205	547
	199,890	161,083
Use of funds:		
Additions to property, plant and equipment	67,604	60,827
Increase (decrease) in investments, long term receivables and other assets	418	(1,423)
Reduction in long term debt	9,901	5,928
Dividends on common shares	31,838	27,281
	109,761	92,613
Increase in working capital	90,129	68,470
Working capital, beginning of the year	261,331	192,861
Working capital, end of the year	$ 351,460	$ 261,331

(See accompanying notes to financial statements)

Notes to consolidated financial statements

Year ended December 31, 1973

1. Accounting Policies

Principles of consolidation—

The accounts of the company and all subsidiary companies are included in the financial statements.

Investments in less than 50 per cent owned joint venture companies are accounted for using the equity method. Under this method the company's share of the annual earnings of these companies is reflected in the current year's income rather than when realized through dividends and the investment in such companies is included in the balance sheet at cost plus the company's share of undistributed earnings.

U.S. dollar liabilities—

Liabilities in U.S. dollars have been translated to Canadian dollars at year-end rates of exchange.

Inventories—

Inventories of crude oil, products and merchandise are valued generally at the lower of cost applied on a "first-in, first-out" basis or market value determined on the basis of replacement cost or net realizable value. Materials and supplies are valued at cost or lower, depending on the condition of the items.

Exploration and development costs—

Exploration expenditures, including geological and geophysical costs, annual rentals on exploratory acreage and dry hole costs are charged to expense. Costs of drilling discovery wells in remote frontier areas where future production has not yet been reasonably assured are also charged to expense.

The initial acquisition costs of oil and gas properties together with the costs of drilling and equipping successful wells (other than discovery wells in remote frontier areas) are capitalized.

Depreciation, depletion and amortization—

Capitalized costs of oil and gas properties and drilling and equipping wells are charged against earnings on the unit-of-production method using estimated recoverable oil and gas reserves. Charges are made against earnings for depreciation of investment in plant and equipment based on the estimated remaining useful lives of the assets using either the straight-line or the unit-of-production method, whichever is appropriate.

Income Taxes—

Except as noted below, the company provides for income taxes on the tax allocation basis whereby the provision for income taxes each year is computed on the basis of the depreciation and other charges reflected in the statement of earnings rather than the related amounts claimed as deductions in the company's tax return. For income tax purposes the company is entitled to claim deductions for drilling, exploration and lease acquisition costs as incurred. Accordingly the company's accounting policy of capitalizing the initial acquisition costs of oil and gas properties along with the cost of drilling and equipping successful wells results in timing differences between the periods the amounts are claimed for tax purposes and their amortization for accounting purposes. The company does not follow tax allocation procedures so as to provide deferred income taxes in respect of these timing differences, since as is the case generally in the oil and gas industry in Canada, the company does not believe that tax allocation (as recommended by the Canadian Institute of Chartered Accountants) in respect of these differences is appropriate at this time. (see note 6)

Crude oil transactions—

In addition to its own net production, the company purchases large volumes of crude oil from other producers and sells whatever crude oil is not required for its own refineries to other companies in the oil industry. It is the company's practice for the most part to offset crude oil sales ($584 million in 1973 and $419 million in 1972) against crude oil purchases and thus exclude such transactions from both revenues and costs.

2. Investments in Associated and Other Companies

	1973	1972
	(millions of dollars)	
At cost:		
With quoted market value (based on closing prices at end of each year)— 1973—$52.5 million; 1972—$73.8 million	$ 4.9	$ 4.9
Without quoted market value	.3	.3
	5.2	5.2
At equity:		
Investment in joint venture companies at cost plus equity in undistributed earnings	13.2	12.7
	$18.4	$17.9

3. Property, Plant and Equipment

	Gross investment at cost	Accumulated depreciation, depletion and amortization	Net investment 1973	Net investment 1972
	(millions of dollars)			
Production	$ 476.5	*$233.8	$242.7	$238.0
Transportation	28.7	17.0	11.7	12.1
Refining and petrochemicals	514.7	239.4	275.3	291.2
Marketing	307.5	134.7	172.8	169.3
Other	21.8	10.1	11.7	12.1
	$1,349.2	$635.0	$714.2	$722.7

**includes accumulated depletion of $39.6 million with respect to the acquisition costs of productive properties.*

4. Depreciation, Depletion and Amortization

Depreciation, depletion and amortization in the consolidated statement of earnings consist of:

	1973	1972
	(millions of dollars)	
Depreciation of plant and equipment	$57.6	$54.6
Depletion of acquisition costs of productive properties	3.0	2.7
Amortization of non-producing properties, drilling costs and other intangible assets	11.7	8.3
	$72.3	$65.6

5. Long Term Debt

	Maturity	Amount
		(millions of dollars)
Debentures		
4¾%	1975	$ 7.0
3½%, 1954 Issue	1974	2.8
5⅛%, Series A	1977	7.8
5¾%, Series B	1982	5.2
5¼%, Series C (U.S. $10.3 million)	1982	10.3
7⅜%, Series D	1978	10.0
7⅜%, Series E	1988	37.7
8½% (a)	1989	50.0
8⅝%-8½% (b)	1990	50.0
Financing Agreement (c)		12.4
Other long term obligations	varying dates	7.0
		200.2
Less instalments due within one year included in current liabilities		4.3
		$195.9

All debenture issues except Series D require sinking fund payments by the companies.

Approximate annual instalments of long term debt due (excluding presently undetermined amounts repayable under (a), (b) and (c) below) in each of the five years subsequent to December 31, 1973, are as follows:

1974–$ 4.3 million; 1975–$11.8 million; 1976–$9.3 million; 1977–$13.3 million; 1978–$18.5 million.

(a) Between June 1, 1973 and June 1, 1974 the holders of such debentures may elect to have the company prepay the principal amount on December 1, 1974. No significant elections have been made to December 31, 1973.

(b) Between March 15, 1974 and March 15, 1975 the holders of such debentures may elect to have the company prepay the principal amount on September 15, 1975.

(c) Under terms of an agreement for exploration and development of certain properties these interest-free loans are repayable in varying amounts commencing no earlier than 1978.

6. Income Taxes

As stated in note 1, the company, as is the case generally in the industry, does not follow tax allocation accounting with respect to successful well and lease acquisition costs. If tax allocation procedures had been followed with respect to such costs, the cumulative amount of deferred income taxes recorded in the financial statements to December 31, 1973 would have been increased by $38.2 million and earnings would have been decreased by $1.5 million ($.03 per share) in 1973 and increased by $1.9 million ($.04 per share) in 1972.

Securities Commissions in Canada have recently questioned this industry practice and have indicated that, unless the industry can justify departure from procedures recommended by the Canadian Institute of Chartered Accountants, companies should be prepared to adopt full tax allocation accounting in 1974. Industry associations have undertaken to prepare a background study in support of the practice by February 28, 1974.

7. Capital Stock

Shares without nominal or par value:

Authorized – 68,000,000

Issued – 45,492,906

The company's incentive stock option plan provides for the granting of options to purchase common shares of the company at the market price on the day when the options are granted. Under the plan, options become exercisable after one year's continuous employment immediately following the date the options are granted and are for a period of ten years. During 1973 options on 11,000 shares were exercised for an aggregate cash consideration of $205,000 and no options were granted.

At December 31, 1973 4,500 common shares were under option to officers at a price of $18 11/16 per share. These options have a normal expiry date of October 4, 1977.

8. Pension Plans

The company has pension plans covering substantially all employees. The contributions by employees, together with those made by the company, are deposited with insurance companies and/or trustees according to the terms of the plans. Pensions at retirement are related to remuneration and years of service. The Gulf Canada Pension Plan was amended in 1973 to provide for an increase in retirement benefits. The amounts charged to income (including amounts paid to government pension plans) were $6.1 million during 1973 and $5.8 million in 1972, which amounts included amortization of prior service costs. The unfunded prior service pension costs were approximately $14.0 million at December 31, 1973 (of which approximately $10.0 million represents the actuarially computed value of vested benefits) and these will be funded and charged to earnings over the next fifteen years.

9. Amounts Owing to and from Affiliated Companies

Amounts owing to and from affiliated companies, all of which arose in the normal course of business, were $32.9 million and $13.9 million respectively at December 31, 1973. ($10.7 million and $11.0 million respectively at December 31, 1972).

10. Commitments and Contingent Liabilities

The company holds a 10 per cent participating interest in a joint venture (operated by Syncrude Canada Ltd.) for the extraction of oil from Athabasca Oil Sands leases in the Province of Alberta. Through options held by other parties, the company's interest could be reduced to a minimum of 7.2%. The participants in the joint venture are committed to proceed with the construction of a 125,000 barrel-a-day plant and related facilities and to provide amounts proportionate to their participating interests. Total project costs are presently estimated to approximate $1 billion. Completion is scheduled for 1978 with the major expenditures expected to be incurred in the last three years of construction.

The company has commitments in the ordinary course of business for the acquisition or construction of fixed assets and the purchase of materials and services and contingent liabilities under various guarantees which are not significant in relation to net assets.

Rentals under long term leases for real property and other facilities approximate $19.0 million annually. Under certain of these long term leases, the company has the option to purchase the leased assets and is obligated to make advances from time to time which will be applied against the purchase price if the option is exercised. It is estimated that such advances will aggregate approximately $20.6 million over the terms of the lease agreements (which expire in 1982). Advances to December 31, 1973 amounted to $7.5 million and during the next five years will aggregate approximately $5.9 million of which $1.0 million will be payable in 1974.

11. Remuneration of Directors and Officers

The aggregate remuneration in 1973 of the company's twelve directors as directors was $55,900. Two directors were also officers of the company during the same period and one director was a past officer. The aggregate remuneration during 1973 of the company's officers (which includes thirteen past officers) as officers was $1,173,000. No directors or officers of the company received any remuneration from a subsidiary of the company.

Five year financial summary

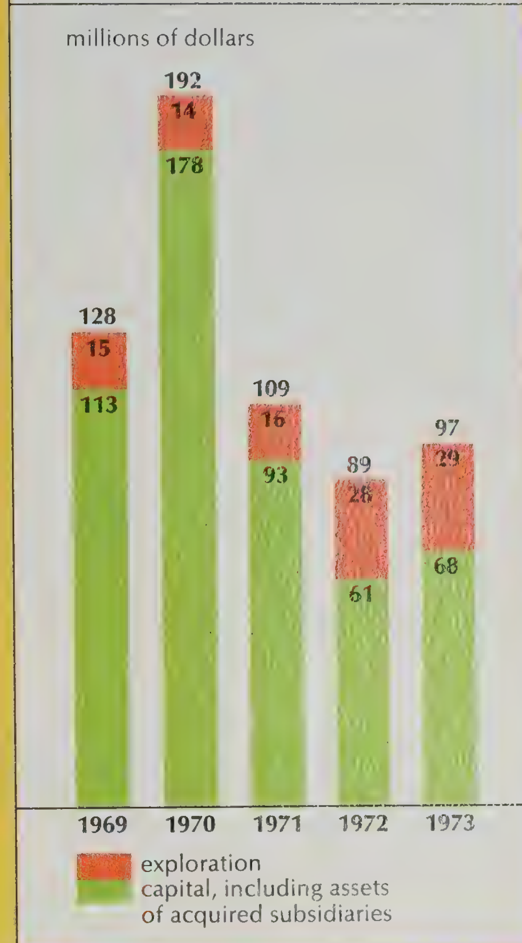
Amounts, except for unit statistics, expressed in millions of dollars

	1973	1972	1971	1970	1969
Balance Sheet					
Current assets	$ 595.2	$ 422.4	$ 366.3	$ 354.1	$ 352.5
Deduct: Current liabilities	243.7	161.1	173.4	176.9	127.8
Working capital	351.5	261.3	192.9	177.2	224.7
Property, plant and equipment – net	714.2	722.7	733.5	706.8	585.4
Investments, long term receivables and other assets	57.8	63.0	69.0	74.3	66.8
Capital employed	1,123.5	1,047.0	995.4	958.3	876.9
Deduct: Long term debt	195.9	195.4	199.3	205.1	157.6
Deferred income taxes	115.6	109.6	91.8	71.7	58.6
Shareholders' equity	$ 812.0	$ 742.0	$ 704.3	$ 681.5	$ 660.7
Per common share	$ 17.85	$ 16.31	$ 15.50	$ 15.01	$ 14.57
Capital Expenditures					
New property, plant, and equipment	$ 67.6	$ 58.3	$ 91.1	$ 178.3	$ 112.4
Fixed assets of acquired subsidiaries	—	2.5	2.0	.1	.4
	$ 67.6	$ 60.8	$ 93.1	$ 178.4	$ 112.8
Earnings					
Gross sales and other operating revenues	$1,231.9	$1,023.1	$ 934.2	$ 823.5	$ 801.7
Less gasoline and fuel taxes	199.5	171.4	159.8	147.9	146.4
Net sales and other operating revenues	1,032.4	851.7	774.4	675.6	655.3
Investment and sundry income	27.6	22.7	20.7	20.3	14.5
	1,060.0	874.4	795.1	695.9	669.8
Deduct:					
Exploration and dry hole costs	29.1	28.1	15.9	13.7	15.3
Depreciation, depletion and amortization	72.3	65.6	55.6	54.5	47.9
Purchases and other expenses	730.5	635.1	598.7	525.2	500.4
Taxes, other than income	68.0	50.1	45.2	39.2	39.0
	899.9	778.9	715.4	632.6	602.6
Earnings before income taxes and extraordinary items	160.1	95.5	79.7	63.3	67.2
Taxes on income	58.4	31.1	25.9	24.1	21.7
Earnings before extraordinary items	101.7	64.4	53.8	39.2	45.5
Extraordinary items	—	—	(4.7)	1.2	—
Earnings for the year	$ 101.7	$ 64.4	$ 49.1	$ 40.4	$ 45.5
Rate of Return (per cent)					
On average capital employed	10.1	7.1	6.3	5.1	6.0
On average shareholders' equity	13.1	8.9	7.8	5.8	7.0
Funds from Operations	$ 181.9	$ 149.9	$ 135.9	$ 110.0	$ 105.1
Dividends Paid	$ 31.8	$ 27.3	$ 27.3	$ 27.2	$ 26.6
Per Common Share					
Earnings before extraordinary items	$ 2.23	$ 1.42	$ 1.18	$ .86	$ 1.00
Earnings for the year	$ 2.23	$ 1.42	$ 1.08	$ .89	$ 1.00
Cash dividends paid	$ .70	$ .60	$ .60	$ .60	$ .575

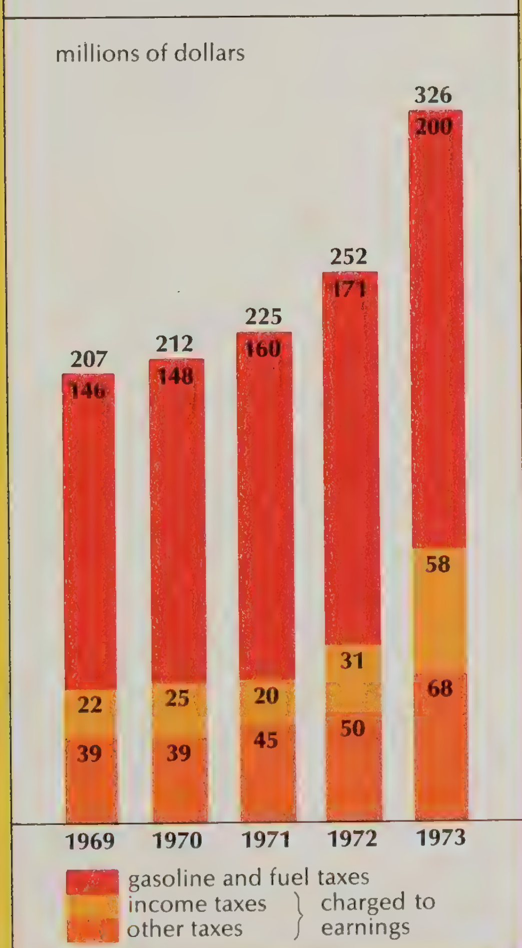
Note: *Amounts shown have been restated, where necessary, to be comparable with 1973.*

Capital employed

Capital and exploration expenditures



Taxes



Funds from operations

Five year summary of operations

	1973	1972	1971	1970	1969
Net Crude and Natural Gas Liquids Produced					
(thousands of barrels)					
Total	45,613	41,662	36,538	33,643	31,352
Per day	125	114	100	92	86
Crude Oil Processed by and for the Company					
(thousands of barrels)					
Total	119,413	108,780	92,957	74,744	72,012
Per day	327	297	255	205	197
Petroleum Products Sold					
(thousands of barrels)					
Total	95,550	89,852	83,097	77,111	75,318
Per day	262	245	228	211	206
Net Natural Gas Produced and Sold					
(millions of cubic feet)					
Total	158,510	164,140	170,214	143,862	129,572
Per day	434	448	466	394	355
Petrochemical Sales					
(thousands of pounds)					
Total	841,204	790,239	670,259	570,050	484,511
Per day	2,305	2,159	1,836	1,562	1,327
Sulphur Sales					
(long tons)					
Total	203,079	176,471	164,324	152,236	134,271
Per day	556	482	450	417	368
Net Wells Capable of Producing at Year-End	1,453	1,468	1,482	1,585	1,593
Net Wells Drilled	50	24	33	20	44
Net Acreage under Lease, Reservation and Option *(thousands of acres)*	25,668	24,090	27,463	27,140	27,237

Directors

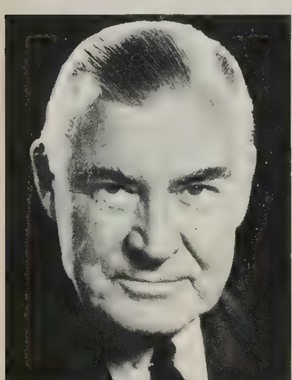
J. D. Barrington
Mining Engineer and Corporate Director, Toronto, Ontario. Director: The Algoma Steel Corporation, Limited; Canadian General Investments Limited; National Trust Company Limited; Excelsior Life Insurance Company.

R. J. Butler
President and Chief Executive Officer, The T. Eaton Co. Limited, Toronto, Ontario. Director: National Trust Company Limited.

E. H. Crawford
President, The Canada Life Assurance Company, Toronto, Ontario. Director: Canadian Imperial Bank of Commerce; Canborough Corporation.

E. F. Crease
President, Alfred J. Bell & Grant Limited, Halifax, Nova Scotia. Director: Canada Permanent Trust Company; Eastern Canada Savings and Loan Company; Convoy Projects Ltd.; Halifax Atlantic Investments Ltd.

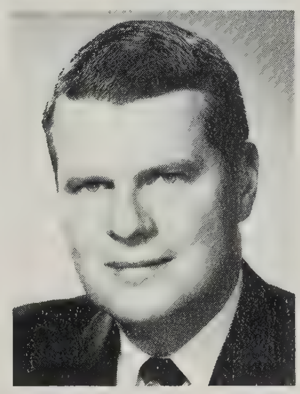
J. Peter Gordon
President and Chief Executive Officer, The Steel Company of Canada, Limited, Toronto, Ontario. Director: The International Nickel Company of Canada Limited; Bank of Montreal; Great Lakes Waterways Development Association; The Steel Company of Canada, Limited; The Canada Systems Group (EST) Limited.



Beverley Matthews, Q.C.
Senior Partner, McCarthy & McCarthy, Toronto, Ontario. Director: The Toronto-Dominion Bank; TransCanada PipeLines Limited; Brascan Limited; Westinghouse Canada Limited; The Canada Life Assurance Company; Gulf Oil Corporation.

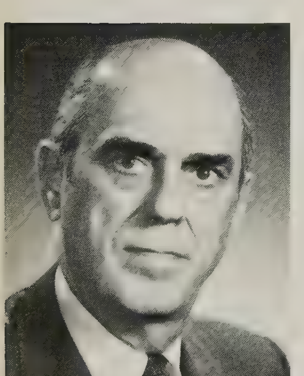
Jerry McAfee
President and Chief Executive Officer, Gulf Oil Canada Limited, Toronto, Ontario. Director: The Bank of Nova Scotia; The Steel Company of Canada, Limited.

Gérard Plourde
Chairman, UAP Inc., Montreal, Quebec. President: Hôpital Notre-Dame. Vice-President and Director: Alliance Compagnie Mutuelle d'assurance-vie; The Toronto-Dominion Bank. Director: Anglo-French Drug Co. Ltd.; Bell Canada; Editions du Renouveau Pédagogique Inc.; Northern Electric Company Limited; The Molson Companies Limited; Rolland Paper Company Limited; Steinberg's Limited.

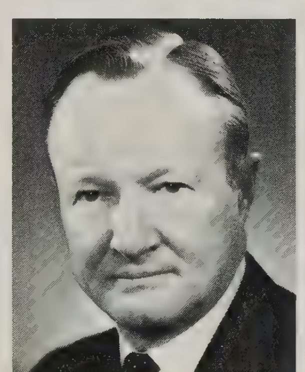


Alfred Powis
President and Chief Executive Officer, Noranda Mines Limited, Toronto, Ontario. Chairman: British Columbia Forest Products Limited. Director: Canadian Imperial Bank of Commerce; Placer Development Limited; Simpsons Limited; Sun Life Assurance Company of Canada.

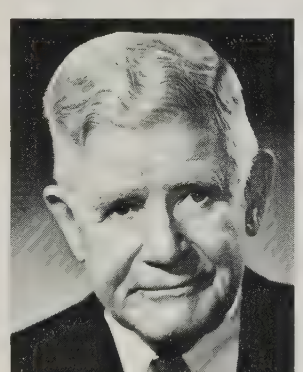
R. G. Rogers
President and Chief Executive Officer, Crown Zellerbach Canada Limited, Vancouver, British Columbia. Director: Canadian Imperial Bank of Commerce; Hilton Canada Limited; Royal General Insurance Company of Canada.



C. D. Shepard
Chairman of the Board, Gulf Oil Canada Limited, Toronto, Ontario. Director: The Toronto-Dominion Bank; The Carborundum Company.



W. H. Young
President, The Hamilton Group Limited, Burlington, Ontario. Director: The Steel Company of Canada, Limited; Harding Carpets Limited; Gore Mutual Insurance Company; National Trust Company Limited.



R. A. Laidlaw
Toronto, Ontario, Director Emeritus.

Gulf Oil Canada Limited

Directors

J. D. Barrington

R. J. Butler

E. H. Crawford

E. F. Crease

J. Peter Gordon

Beverley Matthews, Q.C.

Jerry McAfee

Gérard Plourde

Alfred Powis

R. G. Rogers

C. D. Shepard

W. H. Young

Director Emeritus

R. A. Laidlaw

Officers

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C. D. Shepard, *Chairman of the Board*

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J. L. Stoik, *Senior Vice-President*

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R. T. Brown, *Vice-President*

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S. G. B. Pearson, *Vice-President*

H. W. Peterson, *Vice-President*

J. F. Runnalls, *Vice-President*

J. C. Phillips, Q.C., *Vice-President, General Counsel and Secretary*

R. W. Cochrane, *Treasurer*

J. A. Scobie, *Comptroller*

Head Office
800 Bay Street, Toronto, Ontario

Marketing Region Offices
Montreal, Quebec; Toronto, Ontario; Calgary, Alberta

Chemicals
Headquarters: Montreal, Quebec
Plants: Montreal East, Shawinigan and Varennes, Quebec

Accounting and Data Processing Centres
Montreal, Quebec; Toronto, Ontario; Calgary, Alberta

Research and Development Centre
Sheridan Park, Ontario

Exploration and Production
Headquarters: Calgary, Alberta
Operated gas plants: Gilby, Morrin-Ghost Pine, Nevis, Pincher Creek, Rimbey and Strachan, Alberta

Pipelines
Operated pipelines: Alberta Products, Gulf Alberta, Gulf Saskatchewan, Rimbey, Saskatoon, Shawinigan and Valley

Refineries
Point Tupper, Nova Scotia; Montreal East, Quebec; Clarkson, Ontario; Edmonton, Alberta; Kamloops and Port Moody, British Columbia

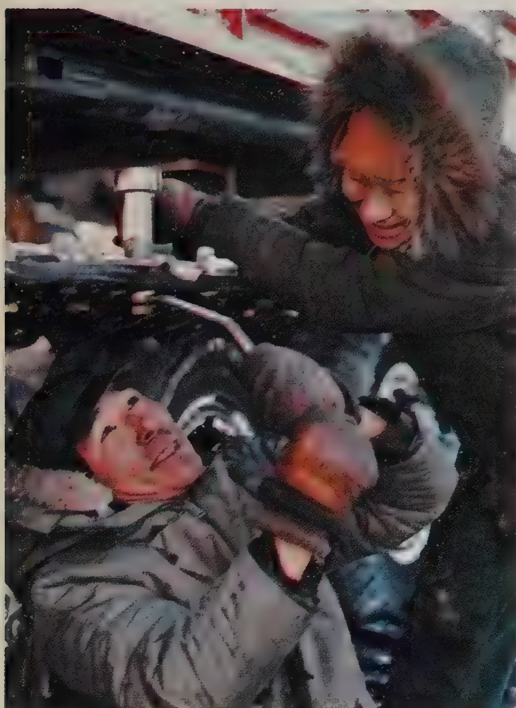
Asphalt Plants
Moose Jaw, Saskatchewan; Calgary, Alberta

Principal Affiliates (wholly-owned)
SERVICO LIMITED
Head Office: Quebec, Quebec – President: R. T. Brown

SUPERIOR PROPANE LIMITED
Head Office: Toronto, Ontario – President: R. G. Samworth

Registrar
Canada Permanent Trust Company, Toronto

Transfer Agents
Canada Permanent Trust Company – Vancouver, Calgary, Regina, Winnipeg, Toronto, Montreal, Saint John, N.B., Charlottetown, Halifax, St. John's, Newfoundland
Registrar and Transfer Company – New York



Native Employment Program

With the construction of our Swimming Point base camp, 50 miles north of Inuvik, N.W.T., and an increased exploration program planned for the Mackenzie Delta during the 1972-73 winter drilling season, the opportunity arose for Gulf Canada to expand its Northern Native Employment Program.

Because of the anticipated high demand for labor in the Inuvik-Tuktoyaktuk area, the Company looked to an alternate community. Members of our Production and Employee Relations Departments met with representatives of the government of the Northwest Territories, the Department of Indian and Northern Affairs, and Canada Manpower, with the result that the Eskimo community of Coppermine, 500 miles east of Inuvik on the shores of Coronation Gulf, was selected.

Coppermine was chosen because it could provide the number of workers required; the community needed an economic uplift; and most important, there were no other major employment prospects for the Coppermine people.

To ensure the program's success, the Coppermine community – not just potential workers – were told about Gulf Canada's operations, and were given complete information regarding the type of jobs available, hours of work and rates of pay, living conditions, transportation provisions, and on-the-job training and advancement. This informational program was accomplished through a series of meetings by members of the Production, Employee Relations and Public Relations Departments, first with the elected council and settlement manager, and subsequently with the community at large. Taking part in these meetings were representatives of the contractors employed by Gulf Canada in the Delta, and on whose payrolls the Eskimos – or Inuits, as they are more properly called – would actually be placed.

The response was immediate and positive, and many applicants took advantage of special courses provided in basic English, heavy equipment operation, and roughneck (drilling) work during the summer months. Last winter a total of 78 Inuits obtained employment at the Company's various Delta operations, and 28 were employed during the peak period in February. This year 85-90 native people will obtain employment, and the program has been expanded to draw workers from Inuvik, Aklavik and Tuktoyaktuk.

To obtain a completely independent assessment of the project, Gulf Canada commissioned Dr. Charles W. Hobart, head of the Department of Sociology, University of Alberta, to undertake a study in terms of areas of success and failure, and recommendations for improving the program. One of the conclusions from interviews with workers, wives, and government officials at Coppermine was the complete approval of the hiring program.

In addition to seasonal jobs created at the Delta operations, Gulf Canada, as a member of Canadian Arctic Gas Study Limited, has broadened its Northern Native Employment Program to include career development. In 1973 an Arctic Gas Study training committee recruited 45 applicants from northern communities for training with member companies. Gulf Canada has a total of 15 trainees at its Rimbey and Strachan, Alberta, gas plants, the Swimming Point office, and rigs operating in the Delta. As an indication of the Company's intention to continue to provide meaningful employment opportunities in the North, an interdepartmental Northern Native Employment Committee has been formed to provide overall co-ordination of native employment for the Company, and last October a new position of Co-ordinator - Northern Employment was created within the Employee Relations Department.

Employees at work

Names, job titles and locations of those shown (left to right, top to bottom):

Inside front cover: Terry Patterson, geologist, Arctic Islands; Gail Walker, secretary, Toronto.

Page 1: Douglas C. Horley, warehouseman, Burnaby, B.C., terminal; Ed Zimmerman, #1 operator, Clarkson refinery; Maurice Bernaquez, computer operator, Montreal.

Page 2: C. D. Shepard, chairman of the board.

Page 3: Jerry McAfee, president and chief executive officer.

Page 4: William F. Eldridge, geological party chief, Rabbit Lake, Saskatchewan; Alan Blackie, geologist, Calgary.

Page 5: Larry R. Marshall, operator, Nevis gas plant; Joe Ehman, base superintendent, Swimming Point, N.W.T.; Dr. Bruce Langhus, geologist, Calgary.

Page 6: Dr. Irmgard Weihmann, geologist, Calgary; Byron L. Brodner, operations supervisor, and George B. DeBoon, engineer, Nevis gas plant.

Page 7: George Fowler, #1 craftsman, Edmonton refinery; Bert H. Stennett, #1 operator, Port Moody refinery; Larry W. Stott, #1 repairman, Kamloops refinery; Ed. J. Burton, #1 mechanic, Point Tupper refinery.

Page 8: Antonio Gourde, lift truck operator, Montreal refinery; Bill Kacsmarik and Dave Blue, #1 mechanics, Point Tupper refinery; Paul Gaudreau, tankwagon salesman, Montreal.

Page 9: Bill MacDougall, #4 operator, Point Tupper ocean terminal; Captain John Withnall, *S.S. Gulf Canada*; Bob White and Mike Petryk, operators, Fort Saskatchewan pipeline, Edmonton.

Page 10: Operator, Shawinigan carbide plant; Zenon Chaykowsky, operator, Varennes chemicals plant; René Labelle, driver, Montreal.

Page 11: Douglas L. Canadine, senior driver, Edmonton; Clifford D. Smith (centre), service centre manager, Vancouver.

Page 12: Fred Insley, attendant, Toronto; Jack W. Green, Servico farm centre manager, Dauphin, Manitoba; Tom W. Collison, industrial marketing representative, Kamloops; Fergus Brick, gas fitter, Saskatoon; J. Roger Anderson, senior driver, Halifax; Paul Hettinga, technician, Sheridan Park.

Page 13: Vic Gordon, technician, Sheridan Park; Marilyn Hutchings, chemist, Sheridan Park; Werner Hartel, engineer, Sheridan Park.

Page 14: Warren Vout, clerk, Head Office; Beth M. Buchan, nurse, and Brian Mori, intermediate technician, Calgary; Mrs. Lucille Hébert, cook, Montreal refinery; Jana Tillsley, switchboard operator, Calgary.

Page 29: John Kohotok and Jack Alona, mechanics, Swimming Point, N.W.T.

Back cover, bottom left: Herb McAteer, marketing representative, Vancouver.

Printed in Canada

PRESIDENT'S REMARKS FOR ANNUAL MEETING, THURSDAY, APRIL 26, 1973

1972 Results:

As you know from reading the Annual Report, 1972 was another record year for Gulf Canada. After the 22 per cent increase in net earnings to $49.1 million in 1971, a further improvement of 31 per cent brought 1972 earnings to $64.4 million. While this is a very heartening performance, it still represents a return of less than seven per cent on invested capital and only 8.7 per cent in terms of shareholders' equity. This sort of return is hardly adequate for a company in a high-risk industry such as ours.

You will also be interested to know that before arriving at those net earnings we had to make provision for an amount nearly twice as great -- some $114 million -- for income taxes, property taxes, federal sales taxes, royalties, lease rentals and other fees. This amount was exclusive of the $171 million collected in gasoline and fuel taxes on behalf of the various provincial governments. Thus, in total last year the Company's operations generated $285 million for the various governments in this country.

The improvement in the Company's level of profitability during the past several years is due in no small measure to the heightened sense of purpose and achievement which today characterizes Gulf Canada employees from coast to coast. Both morale and productivity have improved in the more streamlined organizational patterns which have been adopted to give people in the field increased responsibility and experience as part of our employee development programs.

As one result of this better performance, it has been possible to make improvements in our employee benefit programs and to increase the pensions received by our retired employees. The favorable response to these changes has been most gratifying -- especially the many comments, both written and oral, which have been received from our annuitants.

The main highlight of 1972, of course, was the 14 per cent increase in production of crude oil and natural gas liquids resulting chiefly from increased export demand. Natural gas production, which increased 18 per cent in 1971 when the Strachan plant came on stream, was down four per cent last year due primarily to sale of production facilities in Turner Valley.

As a result of the Point Tupper and Edmonton refineries, Gulf Canada now accounts for approximately 20 per cent of refining capacity in Canada. These new plants with their highly efficient raw material supply and product distribution facilities -- the deepwater dock at Point Tupper and the pipelines at Edmonton -- are contributing significantly to the Company's cash flow.

Capacity of the Alberta Products Pipe Line from Edmonton to Calgary is currently being expanded from 25,000 barrels per day to about 42,000 barrels per day by the addition of a pumping station at Red Deer and additional pumping facilities at Edmonton. Gulf Canada is the operator and largest shareholder in this line.

Improvements in our Marketing operations continue to live up to expectations, with important economies being achieved and better service provided to customers through the consolidation of service stations, farm and home heating centres, and distribution terminals into fewer but larger and better-equipped facilities.

Significant strides have been made during the past year in improving relations with our independent dealers across the country by assuring them, among other things, that we have no intention of undermining the Gulf brand name and their businesses by introducing discount brands under other names.

Our Industrial Sales operation is showing a new vitality, as a result of some excellent new products and personnel and a total approach to the market, including advertising, technical support, and competitive pricing which puts our salesmen in a strong position in bidding for new business.

With the sale last year to B.F. Goodrich of our polyvinyl chloride operations at Shawinigan, Quebec, and the recent closure of the converted plastics plant at Ste. Therese, north of Montreal, the outlook for our remaining chemicals operations is improving, along with world prices for ethylene, vinyl chloride, and various plastic end-products.

Negotiations are currently being finalized with Hercules, Union Carbide, and the Quebec Government which will enable Hercules to build Canada's first polypropylene plant adjacent to our Varennes plant, using propylene feedstock supplied by Gulf Canada. Union Carbide will expand its production facilities, obtaining the additional ethylene from Gulf.

1973 First Quarter and Plans

Turning now to 1973, I am pleased to report that the improved earnings trend of the past two years has been continued in the first quarter of this year. Net earnings for the first three months amounted to $20.8 million or 46 cents per share, a 21 per cent increase over the 17.2 million or 38 cents per share earned in the first quarter last year.

Negative factors such as the higher cost of crude oils, increased production royalties or reserve taxes payable in Alberta and other tax and cost increases were more than offset by a gain in oil production, improved revenues from the sale of refined products, and lower exploration costs.

For the current year, we are planning capital and exploration expenditures of approximately $139 million, an increase of $50 million over the $89 million spent last year.

More than half of this year's outlay will go into exploration expenses and expansion of production facilities in Western Canada. Significant increases in production of both oil and gas should result from major additions in 1973 to field facilities at Swan Hills and in the Nevis area. The Company is currently renegotiating prices on more than one-third of the gas volumes under contract, and in view of the somewhat more realistic attitude now prevailing in most quarters regarding the true value of natural gas, substantial increases are anticipated.

Needless to say, it is our exploration activities that are stirring the greatest interest at present, so perhaps I should take a few moments to summarize the highlights of our exploration program and plans.

Since our Parsons Lake discovery in the Mackenzie Delta was announced early last year, the current drilling season has produced three more gas discoveries. Gas flowed during tests at the Ya Ya P-53 well 60 miles north of Inuvik and at the Titalik K-26 well about 13 miles southwest of the Ya Ya well. Then, late last month our Reindeer F-36 exploratory test 55 miles north of Inuvik encountered gas at the 3,000-foot level which unfortunately ignited and burned briefly before the gas flow was successfully brought under control. Eleven workmen were injured, but I am glad to report that all but one have since been released from hospital. Damage to the rig and the well casing has been repaired and drilling has resumed towards the target depth.

The Ya Ya and Parsons Lake discoveries are on the one-and-a-quarter million acre Reindeer block held 75 per cent by Gulf Canada and 25 per cent by Mobil Oil Canada. The other two wells mentioned are on the 200,000-acre block held equally by Gulf, Shell and Imperial. The four discoveries to date are encompassed by a 40-mile circle centred approximately 50 miles north northwest of Inuvik, and so far as we know they are all on separate structures.

Of the five wells that our three-rig Mackenzie Delta program will drill in the current season, three are still in progress, including Reindeer F-36, our Gulf-Mobil Parsons N-10 delineation well a mile-and-a-half north of the Parsons Lake discovery and higher on the structure, and a new wildcat, Gulf-Mobil Ikhil I-37 which began drilling about two weeks ago. For next season, we plan to step up our Delta program to four rigs.

To give you an idea of the current emphasis in our exploration programs, I can tell you that at present about 50 per cent of our effort, in terms of expenditures, is directed to the Northwest Territories and the Yukon, about 30 per cent in the Arctic Islands and East Coast offshore areas, and about 20 per cent in the conventional areas of Western Canada.

As a result of an agreement concluded last December with Alberta and Southern and Pacific Lighting Gas Development for purchase of up to four trillion cubic feet of our share of gas reserves that may be developed in the Mackenzie Delta, these companies are providing us with interest-free loans of up to $60 million over a five-year period for our exploration and development programs in the Delta. The price of the gas for the first year of deliveries will be based on the best price prevailing in the area and will be redetermined at frequent intervals.

We continue to explore and add acreage in the high arctic and off the East Coast through our 50-50 joint venture with Gulf Oil Corporation. You will recall that this began in 1971 with an initial five-year $20 million commitment from the parent company and a contribution by Gulf Canada of 5.1 million frontier acres for which we had no immediate exploration plans. This was only the base, which has been expanded considerably since that time.

Added during the past quarter was 50 per cent of Amerada Minerals' one-third interest in approximately 33 million acres along the coast of Labrador. Also under the joint arrangement, we are participating in wildcat drilling and seismic work to earn a 25 per cent interest in 6.5 million acres held by Global Marine in the Arctic Islands.

As a part of this effort, a wildcat well is now drilling on Linckens Island just west of Amund Ringnes Island. Earlier this month the other Directors and I made a weekend sweep through the Arctic and were able to visit this well, as well as our Mackenzie Delta activities and our new supply depot at Swimming Point 60 miles north of Inuvik.

As you know, the Gulf joint venture does not include frontier areas for which Gulf Canada already had prior exploration plans -- such as the Mackenzie Delta, the wholly-owned five million acre tract off St. Pierre and Miquelon, and the 10 million-acre Grand Banks block east of Newfoundland which is held 25 per cent by Gulf Canada and 75 per cent by Mobil Oil Canada.

Drilling on this latter acreage 215 miles east of St. John's had to be suspended in January due to unusually early movements of pack ice. However, the huge Sedco-J semi-submersible drilling rig will return to this location and resume drilling this summer.

In Western Canada, under our joint venture with Pan Ocean to evaluate some 1.7 million net Gulf Canada acres in Alberta and B.C., seven deep wildcats have been or are being drilled, mostly deep tests along the Alberta foothills. In addition, several farmout wells were being drilled at no cost to the company at widely-scattered locations throughout Western Canada.

Energy Crisis

Since we read and hear so much these days about the so-called "energy crisis", I would like to make a few observations on this subject. As we have pointed out in the Annual Report and on a number of other occasions, there is no shortage of energy resources in the world today -- and certainly not in Canada.

Presently known world reserves of conventional crude oil are sufficient for 30 years at the present rate of production and this does not take into account the additional reserves which undoubtedly will be found if the industry is permitted a reasonable degree of freedom to explore the prospective areas of the world, especially frontiers such as Canada's arctic regions and various offshore areas around the world. Recoverable oil from Canada's Athabasca Tar Sands could double present known world reserves, and the vast oil shales in the United States are believed to have similar potential.

It is estimated that the world's recoverable reserves of coal -- alone -- are sufficient to meet total energy demands for 300 years. And in the long run, of course, we have uranium and nuclear power, which will assume a steadily increasing share of the world's energy supply burden.

So there is no shortage of energy resources. What _is_ in short supply in the United States and Japan and some other highly industrialized nations is _readily available_ energy at traditionally low prices and capable of meeting today's more stringent environmental requirements. While the present situation may not fully justify the use of the term "crisis", the problem _is_ real and it _is_ serious.

How did the U.S. energy problem come about? Many complex and interrelated factors were involved, but for the most part it is the result of excessive governmental concern and control over energy prices and environmental matters which have adversely affected energy supply, as the following points should illustrate:

- The U.S. nuclear program has encountered serious delays -- some technical, some economic, some political.
- Environmental opposition has delayed and in some cases forestalled the building of essential nuclear and conventional power plants and oil refineries in the U.S.
- Tight controls have been imposed on the sulphur content of fuel oils and coal that may be burned in certain areas.
- An impossibly short schedule has been established for auto emission controls which, with existing technology, has substantially increased gasoline consumption and will increase it still further.
- Rigid government control of the wellhead price of gas over an extended period of time has discouraged exploration in the U.S. as the cost of finding new reserves increased. Because natural gas had started out as a surplus product its price was held at an unrealistically low level in terms of energy content, as compared with competing fuels. This created an artificially high demand for gas and encouraged inferior use of this low-pollution premium fuel in industry and power plants.
- The start of production from the Prudhoe Bay field in Alaska has already been delayed for several years. This production is essential not only to the U.S. but also to economic development of Canada's Mackenzie Delta gas reserves.

Thus, the U.S. was placed in an extremely vulnerable position when the overseas oil producing nations (OPEC) got together to increase their "take" by raising taxes and royalties and insisting upon 51 per cent participation within a few years or, in some cases, simply nationalizing the assets of the producing companies.

The United States today is dependent upon imports for almost 30 per cent of its total petroleum requirements, although substantial reserves are believed to remain undiscovered in Alaska and the continental U.S.

Faced with the indication that its dependence upon imports could reach 50 per cent by 1985, by which time the estimated drain on the balance of payments would amount to an intolerable $25 billion a year, the United States has launched crash programs in an effort to combat current shortages and meet future needs.

Last week President Nixon, in his energy policy statement, abolished all petroleum import quotas, eliminated Federal wellhead price controls on new gas discoveries and on existing interstate gas supplies when current contracts expire. He also asked Congress to drop price controls on other gas and to give the oil industry a tax credit on exploration outlays. Additional offshore leases will be made available for exploration; and development of coal production, deepwater ports and more oil refineries and nuclear plants will be facilitated. If these and some of the other steps long advocated by the industry are adopted by Congress and vigorously implemented, there is reason to believe that the present energy problem in the U.S. can be overcome.

My principal purpose in mentioning the U.S. energy situation has been to illustrate how misguided government policies -- no matter how well-intended -- can cripple the industry's ability to meet future needs. Let us hope that in developing its energy policies Canada will learn well the lessons taught by the U.S. experience.

Development of Canadian Resources

In considering the development of Canada's energy resources, we must continually remind ourselves that although Canada's present exports of oil and gas to the United States are very important to Canada, they represent only a drop in the bucket in relation to total U.S. energy needs -- about seven per cent of its oil consumption and four-and-a-half per cent of the natural gas it uses, although the percentages are considerably higher in some of the bordering states.

The United States must quickly develop large-scale alternatives to its own dwindling oil and gas reserves. With the massive amounts of money the U.S. is prepared to spend on liquefied natural gas imports, oil shales, coal gasification, breeder reactors, geothermal energy, and other possibilities, Canada could miss out on a tremendous opportunity if the Arctic Gas pipeline were not built and if we therefore could not prove up the reserves that we believe may be in the Arctic.

Gas discoveries in the Mackenzie Delta are believed to be approaching the 15-20 trillion cubic foot threshold level required for a pipeline; and unless the industry is able to begin producing and selling these initial reserves it will not be possible to finance the search for and the production of the other 200 trillion cubic feet or so that geologists tell us may ultimately be found in the arctic basins.

It may seem paradoxical, but when it comes to oil and gas the more we produce, within practical limits, the more we are likely to have.

Without regard to the millions of dollars that have been invested in finding the initial reserves, there are those who now suggest that Canada should simply leave those reserves in the ground because they are bound to be worth more later. They probably will be, in a theoretical sense, but if there is no means for bringing them out, they will not really be worth very much. Canada's domestic demand at no time in the foreseeable future would be sufficient to finance the building of a pipeline from the Mackenzie Delta. So if we miss the opportunity provided by gas from Alaska to help in the financing of the Arctic Gas pipeline, the reserves already found in the Mackenzie Delta -- to say nothing of those not yet discovered -- may not be available for future generations of Canadians, let alone for export.

It is imperative, therefore, that the Arctic gas pipeline be built just as soon as it can be demonstrated that the project is technically and financially viable, based on confirmation of sufficient reserves in Alaska and the Mackenzie Delta to sustain the huge volumes involved. I believe that the five years' research already done at a cost of some $25 million to the participating companies has demonstrated that the line can and will be built without undue disruption of the environment.

Encouraging Investment

Corporations operating in a competitive enterprise economy are the most efficient means yet devised for meeting market demands as they occur, in the quantity and quality needed, and at least cost to the consumer. The reasons are threefold: the profit motive, the accountability of management to the shareholders or owners, and the stimulating effects of competition. Although state-run enterprises always lack one or more of these motivating forces, it is interesting to note that industry in the Soviet Union is being switched to a more corporate type of management in an effort to improve unsatisfactory performance.

Companies such as Gulf Canada are able to attract investment capital for their undertakings only by offering investors the prospect of earning a return on their investment which is commensurate with the risks involved. Investors in the oil business -- or in any other business -- risk their savings under a certain set of laws or regulations governing the industry at the time. It is important that governments keep faith with them, not only because of the simple morality involved, but because investor confidence cannot be maintained if the rules keep changing. The possibility for adequate profit must not be undermined.

In Alberta, in Saskatchewan, and most recently and drastically in British Columbia there have been sharp, unilateral royalty increases by the provincial governments. Any tax or other levies that drive costs up unduly in relation to the prospects in a province are bound to dampen the enthusiasm for exploration and investment.

Similarly, if the new Federal regulations covering the frontier areas, when they are eventually issued, were to be unduly restrictive and costly, the exploratory funds now programmed for these regions might well be attracted to some of the other prospective areas in the world.

Now that initial discoveries of oil and gas have been made in Canada's arctic and offshore frontiers, there are some who suggest that the rights to explore these remote regions were granted too cheaply. Anyone who holds this view is forgetting the long lead times involved of 5, 10 or even 20 years before frontier exploration can become production.

Our company began spending money in the Mackenzie Delta in 1960 -- eight years before the Prudhoe Bay discovery in Alaska and 10 years before the first discovery in the Delta. It was just "moose pasture" then, and although it had some interesting surface geology it took a tremendous amount of courage to spend any money there because (1) nothing had been found in the area, and (2) even if it were, it was anybody's guess when, if ever, production could reach the south. At that time no one in his right mind could have envisaged anything of the magnitude of the Arctic Gas pipeline project. By the time the Prudhoe Bay discovery in Alaska was announced in early 1968, we had already spent more than $3 million in the Delta, and it will, of course, be at least 1978 before we can begin to recover any of that money from production.

Today, as a result of petroleum industry investment Canada's arctic and offshore frontiers are bustling with activity. But anyone who feels that the exploration rights were granted too cheaply must remember that it will be many years yet before any company now exploring in the frontier areas will recover its investment, much less show a profit on these operations.

We hear a good deal of talk these days about provincial confrontations on energy issues, conferences between Federal and Provincial governments to settle energy problems, and the long-awaited and reportedly imminent Federal position paper regarding energy policy.

In all this planning for the utilization of Canada's oil and gas reserves, little if any provision has been made for full and active participation by the industry whose expertise, investment and perseverance found the reserves in the first place. Now the industry has embarked upon multi-billion dollar programs to find, develop and deliver more reserves from the frontier areas, including the tar sands. Surely closer government consultation is desirable with the industry which has contributed so much to Canada's strong energy position and which can make a vital contribution to the development of sound energy policies.

Conclusion:

At our Annual Meeting last year I made some comments about industrial strategy and the role of the oil industry as a generator of outside employment in the economy. Since then it has become pretty well accepted, I believe, that the oil industry is as good a source of employment -- ultimately -- as any other industry, because of the jobs it generates in the more labor-intensive industries such as manufacturing and services in addition to the direct employment it provides.

In a very real sense the resource industries are the true generators of wealth in this country, since secondary manufacturing and the service sector are dependent upon the existence of strong and healthy basic industries. In my view, there has been excessive attention paid of late to wealth-distributing institutions such as government agencies and not enough attention to vital wealth-producing institutions in our nation. In other words, if you forget to feed the cow the milk soon runs out. Surely, concern for the health of the resource industries must be the cornerstone of any sound industrial policy for Canada.

In conclusion, I would simply reiterate that last year was a very good year for your Company and state that the prospects for this year and the near-term future are encouraging. Our Company, along with the entire petroleum industry, faces unprecedented opportunities and unprecedented challenges. With the support of the Canadian public and the various Canadian governments concerned I am confident that we will be able to meet these challenges and take advantage of these opportunities.

* * *